Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 765

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Li Shaohua
(appointed with effect from 21 February 2019)
Mr. Poon Wai Yip, Albert
Ms. Xie Yinuo
(resigned with effect from 20 December 2018)
Mr. Wong Sze Chai
(appointed with effect from 20 December 2018 & resigned with effect from 21 February 2019)

Non-executive Director:

Mr. Gao Xiaorui *(Chairman)*

Independent Non-executive Directors:

Mr. Lau Shu Yan
Mr. Xie Xiaohong
Mr. Lam Tak Leung
(appointed with effect from 20 December 2018)
Mr. Zhang Shang
(resigned with effect from 20 December 2018)

COMPANY SECRETARY

Mr. Leung Tak Ho
(appointed with effect from 03 September 2018)
Mr. Li Shu Pai
(resigned with effect from 03 September 2018)

AUTHORISED REPRESENTATIVES

Mr. Leung Tak Ho
(appointed with effect from 03 September 2018)
Mr. Li Shaohua
(appointed with effect from 21 February 2019)
Mr. Li Shu Pai
(resigned with effect from 03 September 2018)
Ms. Xie Yinuo
(resigned with effect from 20 December 2018)
Mr. Wong Sze Chai
(appointed with effect from 20 December 2018 & resigned with effect from 21 February 2019)

AUDITOR

HLM CPA Limited
Certified Public Accountants
Hong Kong

LEGAL ADVISER

Cheung Tong & Rosa Solicitors

REGISTERED OFFICE

Canon's Court,
22 Victoria Street,
Hamilton HM12,
Bermuda

WEBSITE

www.perfectech.com.hk

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

15/F, Sun Hing Industrial Building,
46 Wong Chuk Hang Road,
Aberdeen,
Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building,
69 Pitts Bay Road,
Pembroke HM08,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Standard Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

On behalf of the board of directors (the "Board") of Perfectech International Holdings Limited (the "Company"), I am pleased to present our shareholders the consolidated results and prospects of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018.

BUSINESS REVIEW

For the year ended 31 December 2018, the revenue of the Group amounted to approximately HK$145,251,000 (2017: HK$186,789,000), representing a decrease of about 22%, and the Group recorded a loss for the year attributable to owners of the Company of approximately HK$36,424,000 (2017: of HK$11,408,000). Basic loss per share was approximately 11.14 HK cents (2017: 3.49 HK cents). As mentioned in the announcement of the Company dated 22 March 2019, the increase in consolidated net loss for the year was primarily due to (i) the recent Sino-American trade disputes which led to a decrease in sales as the demand from a major customer dropped; and (ii) changes in fair value of an investment property held by the Group.

Administrative expenses maintained quite stable and increased slightly by about 2% to approximately HK$54,246,000 (2017: HK$53,274,000), including expense for development of mobile phone game of approximately HK$3,600,000 (2017: HK$2,290,000). On the other hand, distribution costs decreased by about 14% to HK$3,168,000 (2017: HK$3,681,000).

Finance costs increased by about 254% to approximately HK$124,000 (2017: HK$35,000) as the Group has utilized certain banking facilities during the year.

FUTURE PLAN AND PROSPECT

In order to consolidate the production facilities of the Group, the production plant in Shenzhen is under planning to be relocated to Zhongshan. In the short run, expenses in relation to the relocation may be incurred and further deteriorate the results of the Group. Nevertheless, huge benefits resulted from the synergy effect in the long one are expected. Meanwhile, the Group will also actively identify good merger and acquisition opportunities in order to acquire new business or assets that will bring additional value and new income streams to the Group.

With the joint efforts of all of its employees, the Group endeavors to work well with its customers, business partners and shareholders to maximise its corporate value and deliver promising returns to its shareholders.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the entitlement of shareholders to attend and vote at the forthcoming annual general meeting of the Company (the "AGM"), the register of members of the Company will be closed from 28 May 2019, Tuesday, to 3 June 2019, Monday (both dates inclusive). During the closure period, no share transfer will be registered. In order to be eligible to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 27 May 2019, Monday.

APPRECIATION

Finally, I would like to take this opportunity to thank all my fellow Directors and the staff for their contribution and cordial support during the year under review.

On behalf of the Board

Gao Xiaorui
Chairman

Hong Kong, 29 March 2019

SEGMENTAL RESULTS

Novelties and decoration

The revenue of this segment had a slight increase of about 1% to approximately HK$17,670,000 (2017: HK$17,503,000), and the segment recorded a loss of approximately HK$6,236,000 (2017: HK$5,872,000).

Toy products

The revenue of this segment decreased by about 25% to approximately HK$127,581,000 (2017: HK$169,286,000), and the segment recorded a loss of approximately HK$17,393,000 (2017: gain of HK$6,839,000). The performance of the segment weakened a lot as a result of drop in revenue due to the decrease in demand for the products from a major customer as a result of the recent Sino-American trade disputes.

Foreign currency exposure

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar. As all of its factories are located in the People's Republic of China (the "PRC"), expenses incurred there are denominated in Renminbi.

Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exposure in this area, and will closely monitor the trend of Renminbi to see if any action is required.

As at 31 December 2018, the Group had not entered into any financial instrument for the hedging of foreign currency.

Liquidity and financial resources

As at 31 December 2018, the Group had short term bank borrowings of HK$7,000,000 (2017: nil) and bank overdraft of HK$2,478,000 (2017: nil). The gearing ratio of the Group, measured by the total of short term bank borrowings and bank overdraft divided by equity attributable to owners of the Company, was 6% (2017: nil).

As at 31 December 2018, the Group had bank balances and cash of approximately HK$73,946,000 (2017: HK$103,498,000). With total current assets as at 31 December 2018 of HK$107,948,000 (2017: HK$144,105,000) as well as available banking facilities, the Group had sufficient financial resources to satisfy its commitments and working capital requirements.

Pledge of Assets

As at 31 December 2018, the Group had pledged its leasehold land and buildings with carrying value of approximately HK$61,436,000 (2017: HK$27,581,000) but had not pledged any of its investment property (2017: HK$36,000,000) to secure banking facilities granted to the Group.

Net asset value

The net asset value per share as at 31 December 2018 was approximately HK$0.48 (2017: HK$0.60), calculated based on equity attributable to equity holders of the Company of HK$158,311,000 (2017: HK$196,579,000) divided by the number of shares in issue on that date of 326,923,607 (2017: 326,923,607).

Employees and remuneration policies

As at 31 December 2018, the Group employed approximately 860 (2017: 832) full time employees. The Group remunerates its employees largely based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

Contingent liabilities

Details of the contingent liabilities are set out in note 27 to the financial statements.

DIRECTORS

Executive Directors

Mr. Li Shaohua (Mr. Li), aged 56, became an executive director, the chief executive officer and an authorised representative of the Company on 21 February 2019. He graduated from Daqing Petroleum College (now known as Northeast Petroleum University) with a bachelor degree in petroleum drilling engineering, and obtained a master degree in business administration from Murdoch University, Australia.

Mr. Li has over 35 years' experience in the areas of oil and natural gas industry, corporate management, and merger and acquisition. He was responsible for business operations, sales management and industrial investment in 華北石油管理局 (North China petroleum administration bureau*), 珠海格力電器股份有限公司 (Gree Electric Appliances Inc. of Zhuhai*) and 珠海九豐阿科能源有限公司 (Zhuhai Jovoarco Energy Ltd*) respectively, and served as a deputy general manager in 廣東振戎能源有限公司 (Guangdong Zhenrong Energy Co., Ltd.*) ("Guangdong Zhenrong"). Besides, Mr. Li was the executive vice president of Wai Chun Strategic Investment Limited, a subsidiary of Wai Chun Group Holdings Limited (a company listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 1013) and was mainly responsible for the business development in the mainland China. Mr. Li is currently an independent non-executive director of China Finance Investment Holdings Limited (a company listed on the Stock Exchange, stock code: 00875).

Mr. Li has entered into a service contract with the Company from 21 February 2019 which shall continue to be effective unless terminated by one month's notice in writing served by either party on the other or payment in lieu.

Mr. Poon Wai Yip, Albert (Mr. Poon), aged 35, became an executive director of the Company on 6 December 2011. He graduated from the University of Nottingham, United Kingdom with a bachelor's degree of Engineering in Civil Engineering and a master of science degree in Management from the Imperial College of Science, Technology and Medicine in the United Kingdom. Mr. Poon has over ten years' experience in corporate finance and is responsible for the investment activities and corporate finance function of the Group. Prior to joining the Group in 2011, he worked for the corporate finance division of a licensed corporation registered under the Securities and Futures Ordinance (the "SFO") in Hong Kong and has been involved in several corporate finance transactions including mergers and acquisitions, corporate reorganization, takeover matters and a variety of fund raising exercises. Also, Mr. Poon is an executive director of certain subsidiaries of the Company.

Mr. Poon has entered into a service contract with the Company which shall continue to be effective unless terminated by one month's notice in writing served by either party on the other or payment in lieu.

Non-executive Director

Mr. Gao Xiaorui (Mr. Gao), aged 38, became the non-executive director of the Company on 28 November 2016. He is the chairman of the Company and also the chairman of the nomination committee of the Company. Mr. Gao is responsible for strategic development of the Group and provides leadership for the Board. He is also the sole director of Fresh Choice Holdings Limited (which is a substantial shareholder of the Company). He has over 10 years of experience in the investment and accounting fields. Mr. Gao graduated from Communication University of China with a bachelor's degree in accounting. As at the date of this report, Mr. Gao, through his holding of 90% interest in the issued shares of Fresh Choice Holdings Limited, is interested in 119,297,041 shares of the Company, representing approximately 36.49% of the entire issued share capital of the Company.

Mr. Gao has entered into a service contract with the Company for a term of three years commenced from 28 November 2016.

* *for identification purpose only*

Independent non-executive Directors

Mr. Lam Tak Leung (Mr. Lam), aged 65, became an independent non-executive director of the Company, the chairman of the remuneration committee and a member of the audit committee and the nomination committee of the Company on 20 December 2018. He graduated from the City University of Macau with a Master Degree of Business Administration. Mr. Lam has been dealing with his business in Hunan Province, China for more than 30 years, and is currently the President of Steeland Investment and Development Limited. In 2013, Mr. Lam was appointed as a Counsellor of Hunan Provincial People's Government, China. He also was a committee member of the 7th, 8th, 9th and 10th Chinese People's Political Consultative Conference (CPPCC) in Hunan Province, China. Meanwhile, he was the 5th, 6th and 7th Vice President of Hunan Overseas Friendship Association. Mr. Lam is the chairman of Hong Kong New Territories District Adviser Alumni Association. He has been serving the community in Hong Kong for many years and was awarded the British Medal of Honour (BH) by Queen Elizabeth in 1995, awarded the Medal of Honour (MH) by the Hong Kong Special Administrative Region Government in 2006 and appointed as the Justice of Peace (JP) by the Hong Kong Special Administrative Region Government in 2012. He has also been an independent non-executive director of Modern Beauty Salon Holdings Limited (a company listed on the Stock Exchange, stock code: 919) since 2013.

Mr. Lam has entered into a service contract with the Company for a term of three years commenced from 20 December 2018.

Mr. Lau Shu Yan (Mr. Lau), aged 37, became an independent non-executive director of the Company on 28 November 2016. He is the chairman of the audit committee and a member of remuneration committee of the Company. He has over 10 years of experience in finance, auditing and accounting fields. Mr. Lau had previously worked in an international accounting firm and he is currently a partner of an audit firm. He is currently an independent non-executive director of Union Asia Enterprise Holdings Limited (formerly known as Pan Asia Mining Limited) (the shares of which are listed on the Stock Exchange (stock code: 8173)), Daohe Global Group Limited (the shares of which are listed on the Stock Exchange (stock code: 915)), and 深圳市明華澳漢科技股份有限公司 (Shenzhen Mingwah Aohan High Technology Corporation Limited) (the shares of which are listed on the Stock Exchange (stock code: 8301)), and was an independent non-executive director of Evershine Group Holdings Limited (formerly known as TLT Lottotainment Group Limited) (the shares of which are listed on the Stock Exchange (stock code: 8022)) for the period from 11 July 2012 to 16 January 2014. Mr. Lau graduated from the University of Newcastle upon Tyne, the United Kingdom with a bachelor's degree in arts majoring in accounting and financial analysis. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Mr. Lau has entered into a service contract with the Company for a term of three years commenced from 28 November 2016.

Mr. Xie Xiaohong (Mr. Xie), aged 48, became an independent non-executive director of the Company on 28 November 2016. He is the member of the audit committee, remuneration committee and nomination committee of the Company. He has over 20 years of experience in providing business solutions and consulting services to banking, finance and telecommunication industries. Mr. Xie is a senior business consultant at Bank of Nova Scotia, Canada currently, providing business solution and consulting services to private and institutional wealth management businesses. Between 2011 and 2012, he was a business systems analyst at Investment Industry Regulatory Organization of Canada, and was responsible for market surveillances support on over 10 security exchange markets of Canada. Mr. Xie graduated from Peking University, China with a bachelor's degree of technical physics majoring in nuclear physics, and he has also obtained a master's degree of applied science majoring in systems design engineering from the University of Waterloo, Canada.

Mr. Xie has entered into a service contract with the Company for a term of three years commenced from 28 November 2016.

SENIOR MANAGEMENT

Mr. Leung Tak Ho (Mr. Leung), aged 43, became the company secretary, the chief financial officer and an authorised representative of the Company on 3 September 2018. He has over 21 years of experience in auditing, corporate finance, corporate governance and financial management. Mr. Leung holds a Bachelor of Accountancy degree from the City University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Leung has entered into a service contract with the Company from 3 September 2018 which shall continue to be effective unless terminated by one month's notice in writing served by either party on the other or payment in lieu.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure. The Board believes that good corporate governance is beneficial for maintaining close and trustful relations with its employees, business partners, shareholders and investors.

The Company has adopted a corporate governance code on 29 August 2013 which was further amended on 20 December 2018, based on the code provisions (the "Code Provisions") of the latest revised code on corporate governance (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from time to time as the guidelines for corporate governance of the Company, and has taken steps to comply with the Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2018, the Company has complied with the Code Provisions save for the following deviations:

Under Code Provision D.1.4, all directors should clearly understand delegation arrangements in place, and the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

The Company had no formal letter of appointment for Ms. Xie Yinuo at the time of her appointment. It was because the management of the Company is of the view that the Director clearly understands the appointment arrangement in place. Also, all Directors, including those without a letter of appointment, shall be subject to retirement by rotation in the manner prescribed under the bye-laws of the Company and on re-election of the retiring Directors, shareholders are given information that is reasonably necessary for them to make an informed decision on the reappointment of the relevant Directors. Besides, all Directors are required to comply with the requirements under statutes and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies. In this regard, the Company is of the view that such requirements are sufficient to meet the underlying objectives of the relevant code provision. In any event, Ms. Xie Yinuo resigned as an executive Director with effect from 20 December 2018 and this code provision has been complied with since then.

DIRECTORS

The Board

The Board, led by the Chairman, steers the Company's business direction. It is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The Directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the Directors in person or through other electronic means of communication.

Board Composition

There are 6 Directors, all being industry veterans, responsible to the shareholders for formulating the overall business development targets and long-term company strategies, assessing results of management policies and monitoring performance of the management. The Board comprised/currently comprises the following Directors:

	Age	Field/Industry/Experience
Executive Directors		
Mr. Li Shaohua *(chief executive officer ("CEO")) (appointed with effect from 21 February 2019)*	56	Oil and natural gas, corporate management, merger and acquisition
Mr. Poon Wai Yip, Albert	35	Corporate finance
Mr. Wong Sze Chai *(appointed with effect from 20 December 2018, appointed as the CEO with effect from 7 January 2019, resigned with effect from 21 February 2019)*	57	Banking
Ms. Xie Yinuo *(resigned with effect from 20 December 2018)*	31	Business development, investment and management in cultural industry
Non-executive Director		
Mr. Gao Xiaorui *(Chairman)*	38	Investment and accounting
Independent Non-executive Directors		
Mr. Lau Shu Yan	37	Finance, auditing and accounting
Mr. Xie Xiaohong	48	Business solutions and consulting services to banking, finance and telecommunication industries
Mr. Lam Tak Leung *(appointed with effect from 20 December 2018)*	65	Business in China
Mr. Zhang Shang *(resigned with effect from 20 December 2018)*	32	Investment

An updated list of the Directors by category identifying their roles is at all times available on the websites of the Company and the Stock Exchange. The list specifies whether the Director is an independent non-executive Director and expresses the respective roles of each Director.

The Company identifies the independent non-executive Directors in all corporate communications which disclose the names of Directors.

Details of the biographies of the Directors are given under the section "Biographical Details of Directors and Senior Management" on pages 7 to 9 of this annual report.

There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

The independent non-executive Directors play an important role on the Board. Accounting for a half of the Board members, they are experienced professionals in their respective fields and among the independent non-executive Directors, at least one of them has appropriate professional qualifications or accounting or related financial management expertise.

They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders of the Company and the Group as a whole.

During the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number of independent non-executive Directors has represented at least one-third of the Board.

Number of meetings attended/eligible to attend

During the year, the Board held 4 regular meetings at about quarterly intervals and 3 additional special meetings. As regards general meetings, the Company held the annual general meeting on 1 June 2018.

Attendance of individual Directors at the Board meetings and general meeting during the year ended 31 December 2018 is as follows:

	Regular Board Meetings	Special Board Meetings	General Meeting
Executive Directors			
Mr. Poon Wai Yip, Albert	4/4	3/3	1/1
Ms. Xie Yinuo *(resigned with effect from 20 December 2018)*	3/4	3/3	1/1
Mr. Wong Sze Chai *(appointed with effect from 20 December 2018 and resigned with effect from 21 February 2019)*	N/A	N/A	N/A
Non-executive Director			
Mr. Gao Xiaorui *(Chairman)*	4/4	3/3	1/1
Independent Non-executive Directors			
Mr. Lau Shu Yan	4/4	3/3	1/1
Mr. Xie Xiaohong	4/4	3/3	1/1
Mr. Lam Tak Leung *(appointed with effect from 20 December 2018)*	N/A	N/A	N/A
Mr. Zhang Shang *(resigned with effect from 20 December 2018)*	3/4	3/3	1/1

Notices of regular Board meetings are served to all Directors at least 14 days before the meeting while reasonable notice is generally given for other Board meetings.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors in a timely manner, and at least 3 days before the intended date of each Board or committee meeting, except agreed otherwise among the members, to ensure that they have sufficient time to review the board papers and be adequately prepared for the meeting, to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to include any matter in the agenda and to make informed decisions.

The Board and each Director, upon reasonable request, have access to independent professional advice in appropriate circumstances to assist them in performing their duties to the Company, at the Company's expense.

Minutes of all Board meetings, meetings of the audit committee of the Company (the "Audit Committee"), the remuneration committee of the Company (the "Remuneration Committee") and the nomination committee of the Company (the "Nomination Committee") are kept by the Company Secretary. All of the above minutes record the discussions and decisions reached by the relevant members in sufficient detail the matters considered and decisions reached, including any concern raised by Directors or dissenting views expressed. Any Director may inspect the minutes at any reasonable time on reasonable notice.

Draft minutes are normally circulated to Directors or members of the relevant committee for comment within a reasonable time after each meeting and the final version is sent to all Directors or committee members for their record.

According to the current Board practice, any transaction, which the Board has determined to be material, which involves a conflict of interests between a substantial shareholder or a Director and the Company, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of the independent non-executive Directors who, and whose close associates, have no material interest in the said transaction rather than a written resolution. Directors are abstained from voting and not counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

The Company has maintained appropriate insurance cover in respect of legal action against its Directors and officers arising out of corporate activities.

Chairman and Chief Executive

Mr. Gao Xiaorui is the Chairman of the Company and Mr. Li Shaohua is the CEO of the Company (appointed with effect from 21 February 2019). Before that, Mr. Wong Sze Chai was the CEO of the Company from 7 January 2019 to 21 February 2019. The Company did not have the position of CEO during the year ended 31 December 2018 and before the appointment of Mr. Wong Sze Chai as the CEO in 2019, and the executive Directors then assumed roles of chief executive officer for the aforesaid periods.

In accordance with the Directors' Memorandum in Discharging Directors' Duties adopted by the Company on 27 March 2012 (the "Memorandum"), the Company's Chairman is responsible for:

- overseeing the development of the long-term strategies, objectives and policies for the Company;
- ensuring all Directors are properly briefed on matters to be discussed at Board meetings;
- ensuring all Directors receive adequate, accurate, clear, complete and reliable information in a timely manner;
- providing leadership for the Board;
- ensuring that the Board works effectively and performs its responsibilities;
- ensuring that agenda for Board meetings are drawn up and approve them, taking into account any matters proposed by the other Directors for inclusion in the agenda;
- taking primary responsibility for ensuring that good corporate practices and procedures are in place;
- encouraging all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that it acts in the best interests of the Company;

- encouraging Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that Board decisions fairly reflect Board consensus;

- ensuring appropriate steps are taken to provide effective communications with shareholders and that views of shareholders are communicated to the Board as a whole;

- promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors;

- attending the annual general meeting and arranging for the chairman of the Audit Committee, Remuneration Committee and Nomination Committee (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting;

- holding meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present;

- deciding whether a resolution at a general meeting relating purely to a procedural or administrative matter should be excluded from the requirement for voting by poll.

Appointments, re-election and removal

Under Bye-law 99 of the Company's Bye-laws and Code Provision A.4.2, every Director, including those appointed for a specific term shall be subject to retirement by rotation at the annual general meeting at least once every three years while those retiring Directors shall be eligible for re-election. Under Bye-law 102(B) of the Company's Bye-laws, all Directors appointed to fill a casual vacancy should only hold office until the next following annual general meeting and shall then be eligible for re-election at the meeting. Under Code Provision A.4.2, all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment.

In accordance with the said provision of the Bye-laws and Code Provision A.4.2, in the annual general meeting held on 1 June 2018, Mr. Poon Wai Yip, Albert retired from office by rotation and was re-elected, subject to terms agreed otherwise which expire earlier and rotation, removal, vacation or termination of their offices as Directors as set out in the Bye-laws or the disqualification to act as a Director under the Bye-laws, the laws of Bermuda and the Listing Rules.

Independent Non-executive Directors

Pursuant to Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each independent non-executive Director of his independence to the Company. The Company has assessed the independence and considers all of the independent non-executive Directors independent based on the independence criteria in accordance with the requirements in Listing Rules, their non-involvement in the daily operation and management of the Group and the absence of any relationships which will interfere with the exercise of their independent judgment.

Non-executive Directors

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

The term of appointment of the non-executive Director is 3 years. The term of appointment of each of the independent non-executive Directors is 3 years.

Nomination of Directors

On 27 March 2012, the Board has established a nomination committee (the "Nomination Committee") pursuant to the requirements of the revised Code, to provide a framework and set the standards for the appointment of high quality Directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of Director(s).

Details of the Nomination Committee are set out in the sub-section headed "Nomination Committee" below.

Responsibilities of Directors

The Board views that the non-executive Directors are well-aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgment at the Board Meetings, taking the lead where potential conflicts of interest arise, scrutinizing the Company's performance and providing independent, constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Board committees of the Company.

The Directors have disclosed to the Company at the time of their appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organizations and other significant commitments. They have also informed the Company of the identity of other public companies or organizations they serve and the time involved in these public companies or organizations.

All Directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation in which they are charged with. The contribution made by the Directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the Directors with reference to his necessary knowledge and expertise. The satisfactory attendance of Board meetings, general meetings and Board committee meetings indicates the constant participation of all Directors, including executive, non-executive and independent non-executive and ensures the better understanding of the views of shareholders by all Directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

The Board and the Board committees are supplied with adequate, complete and reliable information by the management in a timely manner which enables them to make informed decisions.

To fulfil their duties properly, where they consider it as necessary to obtain additional information other than that is provided by the management, the Directors made inquiries where necessary. The Board and the Directors have separate and independent access to the senior management.

All Directors have access to Board papers and related materials in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it. The queries raised by Directors have received a prompt and full response.

Induction and Continuous Professional Development

The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memos and Board papers. According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the period from 1 January 2018 to 31 December 2018:

	Corporate Governance/ Updates on Laws, Rules and Regulation **Read materials**
Directors	
Executive Directors	
Mr. Poon Wai Yip, Albert	✓
Ms. Xie Yinuo *(resigned with effect from 20 December 2018)*	✓
Mr. Wong Sze Chai *(appointed with effect from 20 December 2018 and resigned with effect from 21 February 2019)*	✓
Non-executive Director	
Mr. Gao Xiaorui *(Chairman)*	✓
Independent Non-executive Directors	
Mr. Lau Shu Yan	✓
Mr. Xie Xiaohong	✓
Mr. Lam Tak Leung *(appointed with effect from 20 December 2018)*	✓
Mr. Zhang Shang *(resigned with effect from 20 December 2018)*	✓

Securities Transactions Guidelines

The Board has adopted a code of conduct regarding Directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all Directors and they have confirmed that throughout the year ended 31 December 2018, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

The Directors' interests in shares and options of the Company as at 31 December 2018 are set out on page 35 of this annual report.

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employees, including any employee of the Company or a Director or employee of a subsidiary or holding company of the Company who, because of his office or employment, is likely to be in possession of inside information in relation to the issuer or its securities, in respect of their dealings in the Company's securities.

DELEGATION BY THE BOARD

The Board is responsible for formulating strategies and business plans for the Group and is collectively responsible for its success.

Management Functions

For aspects of management and administration functions delegated to the management, the Board has given clear directions as to the management's power, particularly as to where management should report back and obtain prior Board approval.

The functions reserved to the Board and those delegated to management have been formalized and are reviewed periodically to ensure that they remain appropriate to the needs of the Company. The Board has adopted the Memorandum setting out its delegation policy. The segregation of duties and responsibilities between the Board and the management has been clearly defined and provided as internal guidelines of the Company.

The Board has delegated decisions in relation to daily operation and administration responsibilities to management. The Memorandum has also set out a set of principles which the Board should adhere to when it delegates authority.

In accordance with the Memorandum, the types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Company as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of Directors and senior management;
- communication with key stakeholders, including shareholders and regulatory bodies; and
- reviewing and monitoring the policies and practices on corporate governance.

The types of decisions that the Board has delegated to the management include:

- approving the extension of the Group's activities not in a material manner into a new geographic location or a new business;
- approving assessing and monitoring the performance of all business units and ensuring that all necessary corrective actions have been taken;
- approving expenses up to a certain limit;
- approving the entering into of any connected transactions not requiring disclosure under the Listing Rules;
- approving the nomination and appointment of personnels other than the member of the Board, senior management and auditors;
- approving press release concerning matters decided by the Board;
- approving any matters related to routine matters or day-to-day operation of the Group (including the entering into of any transaction not requiring disclosure under the Listing Rules and cessation of non-material part of the Group's business); and
- carrying out any other duties as the Board may delegate from time to time.

Directors clearly understand the above delegation arrangements of the Company.

During the year, the Board reviewed the policies and practices on corporate governance of the Company, the training and continuous professional development of the Directors and the senior management of the Company, the code of conduct applicable to employees and directors of the Company and the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Board Committees

The Board delegates its powers and authorities from time to time to the Board committees in order to ensure the operational efficiency and specific issues are being handled by relevant expertise. All Board committees are provided with accurate and sufficient information in timely manner so as to enable the Board committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

During the year, the Board had 3 Board committees, which are the Remuneration Committee, the Audit Committee, and Nomination Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

Attendance of the relevant members of the Board committee at the meetings of the committees during the year ended 31 December 2018 is as follows:

	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
Executive Directors			
Mr. Poon Wai Yip, Albert	N/A	N/A	N/A
Mr. Wong Sze Chai *(appointed with effect from 20 December 2018 and resigned with effect from 21 February 2019)*	N/A	N/A	N/A
Ms. Xie Yinuo *(resigned with effect from 20 December 2018)*	N/A	N/A	N/A
Non-executive Director			
Mr. Gao Xiaorui *(Chairman)*	N/A	N/A	1/1
Independent Non-executive Directors			
Mr. Lau Shu Yan	2/2	2/2	N/A
Mr. Xie Xiaohong	2/2	2/2	1/1
Mr. Lam Tak Leung *(appointed with effect from 20 December 2018)*	N/A	N/A	N/A
Mr. Zhang Shang *(resigned with effect from 20 December 2018)*	2/2	1/2	0/1

Nomination Committee

On 27 March 2012, the Board has established the Nomination Committee pursuant to the requirements of the Code, to provide a framework and set the standards for the appointment of high quality Directors who should have the capacity and ability to lead the Company towards achieving sustainable development. It considers matters regarding the nomination and/or appointment or re-appointment of Directors. The Nomination Committee currently comprises 1 non-executive Director and 2 independent non-executive Directors, namely:

Non-Executive Director
Mr. Gao Xiaorui
(Chairman of the Nomination Committee)

Independent Non-Executive Directors
Mr. Xie Xiaohong
Mr. Lam Tak Leung

Mr. Zhang Shang was a member of the Nomination Committee. He resigned and Mr. Lam Tak Leung was appointed as a member of the Nomination Committee with effect from 20 December 2018.

The Nomination Committee is governed by its terms of reference, which were revised on 29 August 2013 and are closely aligned with the relevant Code Provisions requirements. They are available at both the Company's website and HKEx's website www.hkex.com.hk.

During the year, the Nomination Committee met once. The attendance of the members thereat is included in the table set out above.

The main duties of the Nomination Committee include the following:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;
- assess the independence of the independent non-executive Directors;
- make recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and any proposed change to the Board to implement the Company's corporate strategy.

During the year, the Nomination Committee has conducted the following tasks:

- reviewing the policy for the nomination of Directors;
- reviewing the nomination procedures and process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the year;
- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board;
- making recommendations to the Board regarding proposed changes to implement the Company's corporate strategy;
- assessing the independence of the independent non-executive Directors;
- assessing the time required from a Director to perform his responsibilities; and
- reviewing the board diversity policy of the Company including the measurable objectives that it has set for implementing the policy and the progress on achieving those objectives.

The Company consolidated its nomination procedures and selection criteria of directors into the nomination policy of the Company (the "Nomination Policy"), which was approved by the Nomination Committee and confirmed by the Board on 20 December 2018, and was effective on 1 January 2019. The Nomination Policy is as follows:

Objective

1. This Nomination Policy aims to list out the principles and procedures for selection and nomination of members to the Board, to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

2. The Nomination Committee ("NC") shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as directors of the Company at general meetings or appoint as directors to fill casual vacancies.

3. The NC may, as it considers appropriate, nominate a number of candidates more than the number of directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled.

Selection Criteria

4. The factors listed below would be used as reference by the NC in assessing the suitability of a proposed candidate.

Common Criteria for All Directors

4.1. Reputation for integrity, character and integrity

4.2. Commitment in respect of available time

4.3. The willingness to assume broad fiduciary responsibility

4.4. Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs

4.5. Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company

4.6. Significant business or public experience relevant and beneficial to the Board and the Company

4.7. Breadth of knowledge about issues affecting the Company

4.8. Ability to objectively analyse complex business problems and exercise sound business judgment

4.9. Ability and willingness to contribute special competencies to Board activities

4.10. Fit with the Company's culture

4.11. Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

Criteria Applicable to Non-executive Directors/Independent Non-executive Directors

4.12. Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director (including attendance at and active participation in Board and committee meetings), which will include considering the other responsibility of the relevant candidate (such as other directorships held in public companies the securities of which are listed any securities market in Hong Kong or overseas and other major appointments, if any) and the effort and time that may be required by the candidate in fulfilling such role

4.13. Accomplishments of the candidate in his/her field

4.14. Outstanding professional and personal reputation

4.15. The candidate's ability to meet the independence criteria for directors established in the Listing Rules

5. These factors are for reference only, and not meant to be exhaustive and decisive. The NC has the discretion to nominate any person, as it considers appropriate.

6. Retiring directors, save for those who have served as independent non-executive directors for a period of 9 consecutive years, are eligible for nomination by the Board to stand for re-election at a general meeting. Any independent non-executive director of the Company who has served such role for a period of 9 consecutive years are, subject to the NC having satisfied that he/she still maintains his/her independence and that his/her continuation to serve in such role is in the interest of the Company and its shareholders as a whole, be eligible for nomination by the Board to stand for re-election at a general meeting.

7. Proposed candidates will be asked to submit the necessary personal information in a prescribed form, together with their written consent to be appointed as such directorship of the Company and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as such directorship.

8. The NC may request candidates to provide additional information and documents, if considered necessary.

Nomination Procedures

9. The Human Resources team of the Company shall be responsible to liaise with the Company Secretary to call a meeting of the NC, and invite nominations of candidates from Board members if any, for consideration by the NC prior to its meeting. The NC may also put forward candidates who are not nominated by Board members.

10. For filling a casual vacancy, the NC shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the NC shall make nominations to the Board for its consideration and recommendation. The NC follows the procedures below when considering nomination of directors:

    10.1. the NC will evaluate the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy or the directorship the candidate is proposed to take (e.g. independence status in the case of an independent non-executive director);

    10.2. the NC will consider the role and capabilities required for the particular vacancy or the directorship;

    10.3. the NC will identify candidates through personal contacts/recommendations by Board members, senior management, business partners or investors, and will to the extent possible select from a broad range of candidates who are outside the Board's circle of contacts in accordance with the Company's Board Diversity Policy;

    10.4. where appropriate, the NC will conduct interview with the relevant candidate to evaluate whether he/she meets the aforesaid selection and nomination criteria, and verify the information provided by the candidate;

    10.5. the NC will make recommendations to the Board on the appointment or re-appointment of directors.

11. The NC shall ensure the selection process should be transparent and fair.

12. For the avoidance of doubt, the ultimate responsibility for selection and appointment of directors rests with the entire Board.

13. Until the issue of the shareholder circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting.

14. In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, a circular will be sent to shareholders. The names, brief biographies (including qualifications and relevant experience), independence (for independence non-executive directors), proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to shareholders.

15. "Procedures for Shareholders to propose a person for election as a director" shall apply in respect of the nomination by shareholder(s) of person for election as director.

16. A candidate is allowed to withdraw his/her candidature at any time before the despatch of circular to shareholders for election at the general meeting by serving the Company a notice in writing provided that such notice shall be served on the Company not less than 3 business days prior to the despatch of the said circular.

17. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

Confidentiality

18. Unless required by law or any regulatory authority, under no circumstances shall a member of the NC or a staff member of the Company disclose any information to or entertain any enquiries from the public with regard to any nomination or candidature before the circular to shareholders, as the case may be, is issued. Following the issue of the circular, the NC or other staff member of the Company, approved by the NC may answer enquiries from the regulatory authorities or the public but confidential information regarding nominations and candidates should not be disclosed.

Review

19. In addition to meeting for the purpose of considering Board appointment(s), the NC shall from time to time (and at least once annually) meet:

    19.1. to review and consider the performance of the Board, including but not limited to looking at benchmarking how the Company's Board measures up against the other boards in Hong Kong of peer issuers;

    19.2. to consider the need to refresh the Board composition regularly to avoid entrenchment and to attract fresh thinking;

    19.3. to consider Board succession planning and conduct periodical reviews of the plan to ensure the long term success of the Company;

    19.4. to monitor and review this Nomination Policy to ensure that it remains relevant to the Company's needs and reflects both current regulatory requirements and good corporate governance practice.

20. The NC will continually review this Nomination Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel this Nomination Policy at any time.

21. The Board may in accordance with the requirements of the relevant laws and regulations disclose in the Company's Corporate Governance Report annually of any information regarding this Nomination Policy, procedures and objectives made for implementation of this Nomination Policy and the progress made towards achieving the objectives."

Board Diversity Policy

The Board has adopted its board diversity policy (the "Board Diversity Policy") on 29 August 2013, which was revised and updated with effect from 1 January 2019 as approved by the Board on 20 December 2018. The Board Diversity Policy sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance, and sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development, and the Board diversity also helps to achieve a diversity of views and perspectives among members of the Board, to enhance decision making capacity, and to fairly and effectively safeguard the interests of various stakeholders, especially the long term shareholders interests of the Company.

The Board has set measurable objectives based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service to select candidates. The ultimate decision for appointment and succession will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will review the Board Diversity Policy as appropriate to ensure the effectiveness of the same. It will discuss revisions that may be required, and recommend any such revisions to the Board for consideration and approval. It will also monitor the implementation of the Board Diversity Policy.

The Company considers that the current composition of the Board is characterised by diversity after taking into account its own business model and specific needs, and professional background and skills of the Directors.

Remuneration Committee

Remuneration of Directors

The Remuneration Committee was established pursuant to Rule 3.25 of the Listing Rules. It makes recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee is governed by its terms of reference, which were adopted by the Board on 27 March 2012 pursuant to the revised Code. The terms of reference are made available on the Company's website www.perfectech.com.hk and HKEx's website www.hkex.com.hk.

The Remuneration Committee currently comprises 3 members, namely:

Independent Non-executive Directors
Mr. Lam Tak Leung
(Chairman of the Remuneration Committee)
Mr. Lau Shu Yan
Mr. Xie Xiaohong

Mr. Zhang Shang was the chairman of the Remuneration Committee. He resigned and Mr. Lam Tak Leung was appointed as the chairman of the Remuneration Committee with effect from 20 December 2018.

During the year, the Remuneration Committee met two times. The attendance of the members thereat is included in the table set out above.

The work performed by the Remuneration Committee during the year ended 31 December 2018 included the followings:

- making recommendations to the Board on the remuneration policy and structure of Directors and senior management;
- assessing performance of executive Directors;
- approving specific remuneration packages of all executive Directors and senior management;
- making recommendations to the Board of the remuneration of non-executive Directors; and
- conducting the salary review of the Group for the year ended 31 December 2018.

Emolument Policy and Long-Term Incentive Plan

The Company adopts different emolument policies for executive Directors and non-executive Directors:

Emolument Policy for Executive Directors

1. A proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.
2. The performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive Directors.
3. The performance-related elements of remuneration should be designed to align the executive Directors' interests with those of shareholders and to give the Directors keen incentives to perform at the highest levels.

4. Factors for defining performance-based remuneration:

    (a) Eligibility for annual bonuses and any upper limits

    (b) Annual bonuses should be linked to relevant performance indicators designed to enhance the Company's business

    (c) Eligibility for long-term incentive schemes, e.g. share option schemes, subject to performance criteria which reflect the Company's performance

    (d) Examples of performance indicators:

        (i) share price

        (ii) net earnings figure

Emolument Policy for Non-executive Directors

1. Levels of emolument of non-executive Directors should reflect the time commitment and responsibilities of the role.

2. Non-executive Directors should have the opportunity to have part of their remuneration in shares on condition that share options should be granted in accordance with the Listing Rules.

Principles of Long-Term Incentive Schemes

1. The purpose is to reward exceptional performance, and awards should be scaled against achievement of performance criteria.

2. The link between executive reward and company performance should be strong and clear.

3. Grants under such schemes should be phased rather than awarded in one large block.

The emolument payable to the Directors is determined with reference to their qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration of similar positions. The details of the fees and any other reimbursement or emolument payable to the Directors are set out in note 10(a) to the financial statements.

Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring effective and adequate systems are in place for risk management and internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee currently comprises the following members, namely:

Independent Non-executive Directors
Mr. Lau Shu Yan
(Chairman of the Audit Committee)
Mr. Lam Tak Leung
Mr. Xie Xiaohong

Mr. Lau Shu Yan have professional qualifications in accounting.

Mr. Zhang Shang was a member of the Audit Committee. He resigned and Mr. Lam Tak Leung was appointed as a member of the Audit Committee with effect from 20 December 2018.

The Audit Committee is governed by its terms of reference, which have been revised by the Board on 26 August 2015 pursuant to the revised Code. The terms of reference are made available on the Company's website www.perfectech.com.hk and HKEx's website www.hkex.com.hk.

During the year, the Audit Committee met two times. The attendance of the members thereat is included in the table set out above.

The Audit Committee meetings are normally attended by the Company's financial controller and the external auditor, for discussion of the audit of the Company's annual results only. The external auditors are often present on discussion of the audit of financial results and audit planning.

The work performed by the Audit Committee during the year ended 31 December 2018 included consideration of the following matters:

- the completeness and accuracy of the 2017 annual and 2018 interim financial statements;
- the Company's compliance with statutory and regulatory requirements; developments in accounting standards and the effect on the Company;
- detailed analysis of various aspects of the Company's financial performance;
- investment policies and possible impact of certain investment transactions;
- the audit fees payable to external auditors, the scope and timetable of the audit for the year ended 31 December 2018;
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. HLM CPA Limited as the external auditors; and
- reviewed and discussed with the management the internal control and risk management systems.

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Audit Committee is also supported by the external auditor.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Board is responsible for the integrity of the financial information of the Group. The Directors have acknowledged their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditor's Report" on pages 41 to 46 of this annual report.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the financial statements set out on pages 47 to 116 of this annual report on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the "Management Discussion and Analysis" set out on pages 5 to 6 of this annual report.

The management provides the Board with sufficient explanation and information, such as the Group's major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and position of the Company put before the Board for approval.

The management also provides all Directors with monthly updates giving them a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of Listing Rules.

Risk Management and Internal Controls

During the year, the Group has established and maintained an appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis.

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: the management would identify ownership of risks, business objectives and risks that could affect the achievement of objectives by examining reports on risk management, internal control and procedures in place submitted by various factories of the Group from time to time, and would inform the Audit Committee and the Board if any significant risks are discovered; the internal audit function of the Company would also conduct risk assessments of the Group and report to the Board via Audit Committee if significant risks are identified;

- Evaluation: the Audit Committee would analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly, having considered the opinions of the internal audit function of the Company and the management (if any); and

- Management: the Audit Committee would consider the risk responses, and ensure effective communication to the Board regarding the risks identified and the corresponding remedial plans and recommendations, and the Board via the Audit Committee would on an on-going basis monitor the residual risks.

Based on the risk assessments conducted during the year ended 31 December 2018, no significant risk was identified.

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group;

- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed;

- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out;

- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls; and

- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

Based on the internal control reviews conducted during the year ended 31 December 2018, no significant control deficiency was identified.

In order to enhance the Group's system of handling and disseminating inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements inside information procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- the access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality;

- confidentiality agreements are in place when the Group enters into significant negotiations; and

- the executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

The Group has an Internal Audit ("IA") function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant). The IA function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An IA plan has been approved by the Board. According to the established plan, review of the risk management and internal control systems is conducted annually and the results are reported to the Board via Audit Committee afterwards. Such review has been conducted for the year ended 31 December 2018.

The Board acknowledges that it is responsible for the risk management and internal control systems of the Group and ensures review of the effectiveness of these systems has been conducted. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Regarding the review of the risk management and internal control systems, apart from the works of the IA function, the management also examine reports on risk management, internal control and procedures in place submitted by various factories of the Group from time to time, and would inform the Board if any major internal control failings or weaknesses were discovered. External auditors would also report on the weakness in the Group's internal control and accounting procedure which have come to their attention during the course of audit.

Both the Audit Committee and the Board will review the Company's internal control and risk management systems at least annually and such review has been conducted for the year ended 31 December 2018 having taken into account the results of the review conducted by the IA function, and the information from the management and the external auditors (if any).

The Board, through its reviews and the reviews made by IA function and Audit Committee, has not identified any significant areas of concern, risks or major internal control failings or weaknesses, and concluded that the risk management and internal control systems were effective and adequate. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

In any event, in case any material internal control defects are identified, the Audit Committee will review the actions performed or the plans to be carried out by the management in addressing the issues and defects regarding the internal control and risk management systems. The corresponding remedial plans and recommendations to resolve such defects will then be submitted to the Board for consideration.

Auditor's Remuneration

The Company' external auditor is HLM CPA Limited. For the year under review, the remuneration paid for services provided by the auditors is roughly as follows:

Services Rendered	Fees Paid/ Payable HK$'000
Audit services	HK$1,075

COMPANY SECRETARY

The position of Company Secretary was held by Mr. Li Shu Pai from 1 January 2018 to 3 September 2018. With effect from 3 September 2018, Mr. Leung Tak Ho was been appointed as the Company Secretary and the chief financial officer of the Company.

The Company Secretary is responsible to the Board and reports to the Chairman from time to time. All Director have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable laws, rules and regulations are followed.

The Company Secretary is required to take no less than 15 hours of relevant professional training during the year ended 31 December 2018. Mr. Li Shu Pai and Mr. Leung Tak Ho fulfilled the requirement during the year under review.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group values and strives to provide comprehensive and timely communications to its stakeholders, including its shareholders.

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations.

The Chairman of the Board and chairman of the Remuneration Committee, Nomination Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, were available to answer questions at the shareholders' meetings.

Voting by Poll

The Company expresses in each relevant corporate communication that the shareholders shall vote by poll so as to allow the shareholders to have one vote for every share of the Company held. The chairman of the meeting would explain the voting procedure and answer any questions from the shareholders regarding voting in poll in the general meetings. The poll voting results of the general meetings were published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings.

Shareholders' Rights to Convene a Special General Meeting

Further to the Companies Act 1981 of Bermuda and under Bye-Law 62 of the Bye-Laws of the Company, a special general meeting can be convened on requisition.

Shareholders' Communication Policy

Based on the requirement of revised Code, a Shareholders Communication Policy was formulated and adopted on 27 March 2012 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with shareholders. The effectiveness of shareholders communication under the said policy had been reviewed by the Board at the board meeting held on 30 March 2018.

The most recent shareholders' meeting was the annual general meeting held on 1 June 2018 at 2401–2, Admiralty Centre 1, 18 Harcourt Road, Hong Kong to discuss and approve the following matters:

- considering and receiving the consolidated financial statements and reports of the Directors and auditors for the year ended 31 December 2017;
- re-electing Director who retired from office by rotation and authorizing the Board to fix the remunerations of the Directors;
- appointing the Company's external auditor and authorizing the Board to fix their remunerations;
- passing a general mandate to allow the Directors to allot and issue shares of the Company ("General Mandate");
- passing a repurchase mandate to allow the Directors to repurchase shares of the Company ("Repurchase Mandate"); and
- passing a general extension mandate to allow the Directors, after the grant of Repurchase Mandate, to add to the General Mandate any shares repurchased pursuant to the Repurchase Mandate (the "General Extension Mandate").

Constitutional Documents

There was no significant change in the Company's constitutional documents during the year.

Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Company's website http://www.perfectech.com.hk.

Enquiries and proposals to be put forward at shareholders' meetings can also be sent to the Board or senior management by contacting the Investment Department at (852) 39650088, via e-mail to info@perfectech.com.hk, or directly through the questions and answers session at shareholders' meetings.

The Directors present their annual report (the "Report of the Directors") and the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 33 to the financial statements.

BUSINESS REVIEW

Details of the activities during the year ended 31 December 2018 including, a fair review of the business of the Group with financial performance indicators, including revenue, loss for the year attributable to owners of the Company, loss per share, gearing ratio and net asset value per share, and an indication of likely future development in the Group's business are explained in the "Chairman's Statement" and "Management Discussion and Analysis" set out on pages 3 to 6 of this annual report. The above financial performance indicators reflect the Group's profitability, value and liquidity as well as how the Group finance its operations and build its capital structures.

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including foreign currency risk, credit risk, and liquidity risk. The risk management policies and practices of the Group are set out in note 31 to the financial statements.

RELATIONSHIP WITH KEY STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers, customers, employees and other stakeholders to meet its immediate and long-term goals. During the year, there was no material and significant dispute between the Group and its suppliers, customers, employees and/or other stakeholders.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 47 of this annual report.

No interim dividend was paid to the shareholders during the year. The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 95% of the total revenue of the Group and the largest customer accounted for approximately 82% of the total revenues of the Group. The Group has business relationship with its largest customer and most of the major customers for more than 10 years. For the credit period granted to the customers, please refer to note 17 to financial statements. The material payment from the customers has been settled within the credit time frame.

The five largest suppliers of the Group in aggregate accounted for approximately 47% of the total purchases of the Group and the largest supplier accounted for approximately 17% of the total purchases of the Group. The Group has had a business relationship with its largest supplier and most of the major suppliers for more than 10 years. For the credit period granted by the suppliers, please refer to note 19 to financial statements. The material payables are paid within the credit time frame.

At no time during the year did a director, an associate of a director or a shareholder of the Company and to the best knowledge of the Directors owns more than 5% of the number of issued shares of the Company have an interest in any of the Group's five largest customers and/or five largest suppliers.

PROPERTY, PLANT AND EQUIPMENT

The Group continued its replacement policy and expended approximately HK$3,048,000 on property, plant and equipment during the year.

Details of the above and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARES ISSUED IN THE YEAR

No shares of the Company were issued during the year.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company had no reserve available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account in the amount of approximately HK$118,895,000 as at 31 December 2018 may be distributed in the form of fully paid bonus shares.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Li Shaohua *(appointed with effect from 21 February 2019)*
Mr. Poon Wai Yip, Albert
Ms. Xie Yinuo *(resigned with effect from 20 December 2018)*
Mr. Wong Sze Chai *(appointed with effect from 20 December 2018 and resigned with effect from 21 February 2019)*

Non-executive Director

Mr. Gao Xiaorui *(Chairman)*

Independent non-executive Directors

Mr. Lau Shu Yan
Mr. Xie Xiaohong
Mr. Lam Tak Leung *(appointed with effect from 20 December 2018)*
Mr. Zhang Shang *(resigned with effect from 20 December 2018)*

In accordance with bye-law 99 of the new Bye-Laws and the Code on Corporate Governance of the Company, every Director, including those appointed for a specific term, shall be subject to retirement by rotation at the annual general meeting at least once every three years. All retiring Directors shall be eligible for re-election.

DIRECTOR'S SERVICE CONTRACTS

No director has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

All independent non-executive Directors had been/have been appointed for a term of approximately three years.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 31 December 2018, the interests of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the SFO as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long position in the shares of the Company

Director	Capacity	No. of shares held	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company (approximately)
Mr. Gao Xiaorui	Interest of controlled corporation	119,297,041	—	119,297,041 (a)	36.49

Note: (a) Fresh Choice Holdings Limited is a limited company incorporated in the British Virgin Islands owned as to 90% by Mr. Gao Xiaorui, a non-executive Director, and 10% by Mr. Wu Zhenlong.

Other than as disclosed above, none of the directors, nor their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO at 31 December 2018.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 28 to the financial statements. There were no movements in the Company's share options during the years ended 31 December 2017 and 2018.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in the section "Directors' Interests in Shares and Options", as at 31 December 2018, the register of substantial shareholders' interests maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of their relevant interests in the issued shares of the Company as follows:

Long position in the shares of the Company

Shareholder	Capacity	No. of shares held	No. of underlying shares held under equity derivatives	Total	% of issued share capital of the Company (approximately)
Mr. Zhai Jun	Interest of controlled corporation	125,297,040	—	125,297,040 (1)	38.33
Star Fly Limited	Beneficial owner	125,297,040	—	125,297,040 (1)	38.33
Fresh Choice Holdings Limited	Beneficial owner	119,297,041	—	119,297,041 (2)	36.49

Notes:

1. Star Fly Limited is a limited company incorporated in the British Virgin Islands wholly owned by Mr. Zhai Jun.

2. Fresh Choice Holdings Limited is a limited company incorporated in the British Virgin Islands owned as to 90% by Mr. Gao Xiaorui, a non-executive Director and 10% by Mr. Wu Zhenlong.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

CORPORATE GOVERNANCE

Save as disclosed in the Corporate Governance Report, the Company has adopted throughout the year ended 31 December 2018 the Corporate Governance Code and Corporate Governance Report ("Code") set out in Appendix 14 of the Listing Rules as its own corporate governance code.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report on pages 10 to 32 of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its shares whether on the Stock Exchange or otherwise.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set by the Board and reviewed by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Board (for the non-executive directors) or by the Remuneration Committee (for the executive directors), having regard to the Company's operating results, individual performance, background, qualification, skills, experience, time commitment and responsibilities of the relevant directors, comparable market statistics and employment conditions elsewhere in the Group.

The Company has adopted a share option scheme as an incentive to its directors and eligible employees, details of the scheme is set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's new Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2018.

ENVIRONMENTAL POLICIES

The Group commits to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. The Group also commits to the principle and practice of recycling and reducing. To help conserve the environment, it implements green office practices such as encouraging use of recycled paper for printing and copying, double-sided printing and copying, and switching off idle lightings, air conditioning and electrical appliances to reduce energy consumption.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Company has complied with all the relevant laws and regulations that have a significant impact on the Company. Compliance procedures are in place to ensure compliance with relevant laws and regulations. Our professional employees attend on-going professional development programs in order to keep them abreast of the latest development of the laws and regulations. External legal advisors are engaged to advise on the compliance matters if and when necessary. The Company complies with the relevant laws and regulations that have a significant impact on the Company including the Hong Kong Companies Ordinance, SFO and the Listing Rules.

AUDITOR

The financial statements for the year ended 31 December 2018 have been audited by the Company's auditor, Messrs. HLM CPA Limited, Certified Public Accountants. HLM CPA Limited shall retire and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of HLM CPA Limited will be proposed at the forthcoming annual general meeting.

AUDIT COMMITTEE

The annual results for the year have been reviewed by the Audit Committee of the Company, which is of the opinion that the preparation of such financial information complies with the applicable accounting standards, the requirements under the Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme as disclosed above and in note 28 to the financial statements and the grant letters issued pursuant to the scheme, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

Bye-law 178 of the new Bye-Laws of the Company provides that the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duties or supposed duty in their respective offices or trusts. The Company has also taken out and maintained directors' liability insurance which provides appropriate cover for the directors of the Company and directors of the subsidiaries of the Group.

Such permitted indemnity provisions have been in force throughout the year under review and is currently in force at the time of approval of this report.

DIVIDEND POLICY

The Company has confirmed and consolidated its dividend policy (the "Dividend Policy") on 20 December 2018, which aims to consolidate and set out the approach and principles of the Company in declaration of dividend.

The Dividend Policy is as follows:

"PURPOSE

1. This Dividend Policy aims to consolidate and set out the approach and principles of the Company in declaration of dividend.

FACTOR(S) TO BE CONSIDERED FOR DECLARATION OF DIVIDENDS

2. In considering whether to declare any dividend, the Board shall consider factors in all aspects whether on the operating results, cash flow, financial condition and capital requirements of the Group and the interests of the Shareholders of the Company, including but not limited to:-

    2.1. the Company's actual and expected financial performance;

    2.2. retained earnings and distributable reserves of the Company and each of the members of the Group;

    2.3. the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;

    2.4. any restrictions on payment of dividends that may be imposed by the Group's lenders;

    2.5. the Group's expected working capital requirements and future expansion plans;

    2.6. general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

    2.7. any other factors that the Board deem appropriate.

PRINCIPLES IN RELATION TO DECLARATION OF DIVIDENDS

3. If the Group records a profit and the Board, having considered factors of all aspects (including but not limited to those factors set out in paragraph 2), is satisfied that the declaration and distribution of dividends does not affect the Group's normal operations, and subject to compliance with any restrictions under the Companies Law of Bermuda and the bye-laws of the Company:

   3.1. the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders");

   3.2. yet, any such declaration and payment of dividends shall remain to be determined at the sole discretion of the Board.

4. Subject to the bye-laws of the Company and all laws and regulations applicable to the Company,

   4.1. the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board;

   4.2. the Board may from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits of the Company.

5. This Dividend Policy and the declaration and/or payment of dividends under this Dividend Policy are subject to the Board's continuing determination that this Dividend Policy and the declaration and/or payment of dividends would be in the best interests of the Group and Shareholders, and are in compliance with all laws and regulations applicable to the Group.

6. The Board endeavours to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy.

7. The Board will continually review this Dividend Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel this Dividend Policy at any time, and this Dividend Policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time."

On behalf of the Board

Li Shaohua
Director

Hong Kong, 29 March 2019

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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TO THE MEMBERS OF PERFECTECH INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Perfectech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 116, which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Cont'd)*

Valuation of investment property

Key audit matter

We identified the valuation of investment property as a key audit matter due to significance of the balance to the consolidated financial statements as a whole, combined with significant judgement associated with determining the fair value. As disclosed in notes 14 and 15 to the consolidated financial statements, the Group transferred an investment property at fair value of HK$35,000,000 to property, plant and equipment on 31 December 2018. The fair value of the investment property at the date of transfer was determined based on a valuation report of an independent professional property valuer which was reviewed and accepted by the management. The decrease in fair value of investment property of HK$1,000,000 was recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended.

Management has engaged an independent professional property valuer to perform the valuation of the investment property. The fair value of the investment property was determined based on Comparison Approach assuming sale in their existing state with the benefit of vacant possession and was made with reference to comparable sale evidences as available in the relevant market accepted. Appropriate adjustments have been made to account for the differences between the property and the comparables in terms of time, location, age, floor level, size and other relevant factors.

How our audit addressed the key audit matter

Our audit procedures in relation to the valuation of investment property included:

- examining and reviewing the valuation report issued by the independent professional property valuer;

- evaluating the qualification, independence and objectivity of the independent professional property valuer; and

- obtaining an understanding from the independent professional property valuer and management about the valuation methodology, the performance of the property markets, significant assumptions adopted, critical judgement on key inputs and data used in the valuations and evaluating the valuation methodology used and the key estimates and key input adopted in the valuation.

We found that the assumptions and key inputs used by the independent professional property valuer and management were reasonable.

KEY AUDIT MATTERS *(Cont'd)*

Valuation of inventories

Key audit matter

We identified the valuation of inventories as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole. There is a significant degree of judgement by the management determining the net realisable value ("NRV") of the inventories.

As disclosed in note 3 to the consolidated financial statements, NRV represents the latest selling prices for inventories less all estimated costs to completion and costs necessary to make the sale. Management's estimation of the NRV was primarily based on the latest selling prices and current market conditions. As at 31 December 2018, the carrying amount of inventories was HK$11,866,000. The management carried out a review of the inventories at the end of the reporting period and no allowance was made for obsolete and slow moving items to write down those inventories to their respective NRVs during the year ended 31 December 2018.

How our audit addressed the key audit matter

Our audit procedures in relation to assessing the appropriateness of the carrying value of the inventories included:

- testing the operating effectiveness of controls associated with the existence and conditions of inventories;
- reviewing how management estimated the NRVs of inventories and evaluating the historical accuracy of the allowance estimations made by the management;
- discussing with management and assessing the bases of management's estimations of subsequent selling price, costs to completion and costs necessary to make the sale;
- reviewing a list of obsolete and slow moving inventories and assessing the allowance made on obsolete and slow moving items; and
- verifying the value of a sample of inventories to confirm that the inventories were held at the lower of cost and NRV.

Based on our procedures described, we found the estimations of management in relation to valuation of inventories were supportable by available evidence.

KEY AUDIT MATTERS *(Cont'd)*

Valuation of trade receivables

Key audit matter

We identified the impairment of trade receivables as a key audit matter due to significant management judgement involved in identification and measurement of loss allowance for expected credit losses.

The key changes arising from the adoption of HKFRS 9 are that the Group's credit losses are now estimated based on an expected loss model rather than an incurred loss model.

As disclosed in notes 17 to the consolidated financial statements, the Group has trade receivables of HK$17,153,000, after recognising an impairment allowance of HK$4,524,000 as at 31 December 2018. As explained in note 2 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial Instruments" (HKFRS 9).

The assessment of impairment for trade receivables involves significant management judgements and estimates on the amount of expected credit loss at the reporting date.

At each reporting date, the management assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The management considers reasonably supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

How our audit addressed the key audit matter

Our procedures in relation to valuation on trade receivables included:

- Inquiring the management to understand the approach applied on ECL model of trade receivables;
- Understanding key controls on how the management estimates impairment for trade receivables;
- Challenging management's basis and judgement in determining the appropriateness of management's grouping of the trade receivables into different categories in inputs and assumptions applied on the ECL model, including the Group's historical loss experience and forward-looking information;
- Assessing the appropriateness of the inputs and assumptions applied on the ECL model of trade receivables, including forward-looking information;
- Reviewing the Group's historical loss experience; and
- Testing the subsequent settlement of trade receivable.

We found that the estimation and judgement made by management in respect of the valuation of trade receivables were supportable by the credible evidence.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND OUR AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

HLM CPA Limited
Certified Public Accountants
Ng Fai Fiona
Practising Certificate Number: P04986
Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	5 & 6	**145,251**	186,789
Cost of sales		**(130,158)**	(140,290)
Gross profit		**15,093**	46,499
Other income, gains and losses	7	**4,848**	1,505
Distribution costs		**(3,168)**	(3,681)
(Loss) gain from changes in fair value of an investment property	15	**(1,000)**	3,300
Administrative expenses		**(54,246)**	(53,274)
Finance costs	8	**(124)**	(35)
Loss before tax	9	**(38,597)**	(5,686)
Income tax credit (expense)	11	**217**	(4,910)
Loss for the year		**(38,380)**	(10,596)
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of overseas operations		**(2,105)**	1,636
Other comprehensive (expense) income, net of tax		**(2,105)**	1,636
Total comprehensive expense for the year		**(40,485)**	(8,960)
(Loss) profit for the year attributable to:			
Owners of the Company		**(36,424)**	(11,408)
Non-controlling interests		**(1,956)**	812
Loss for the year		**(38,380)**	(10,596)
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(38,268)**	(10,064)
Non-controlling interests		**(2,217)**	1,104
Total comprehensive expense for the year		**(40,485)**	(8,960)
Loss per share	13		
Basic (HK cents per share)		**(11.14)**	(3.49)
Diluted (HK cents per share)		**(11.14)**	(3.49)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**85,194**	59,131
Investment property	15	**—**	36,000
Deferred tax assets	21	**8,678**	8,090
		93,872	103,221
CURRENT ASSETS			
Inventories	16	**11,866**	17,363
Trade and other receivables	17	**21,472**	23,186
Tax recoverable		**664**	58
Bank balances and cash	18	**73,946**	103,498
		107,948	144,105
CURRENT LIABILITIES			
Trade and other payables	19	**17,800**	24,771
Bank borrowings	20	**7,000**	—
Bank overdraft	18	**2,478**	—
Tax liabilities		**—**	6,959
		27,278	31,730
NET CURRENT ASSETS		**80,670**	112,375
TOTAL ASSETS LESS CURRENT LIABILITIES		**174,542**	215,596
NON-CURRENT LIABILITIES			
Deferred tax liabilities	21	**62**	95
NET ASSETS		**174,480**	215,501

	Notes	2018 HK$'000	2017 HK$'000
CAPITAL AND RESERVES			
Share capital	22	**32,692**	32,692
Reserves		**125,619**	163,887
Equity attributable to owners of the Company		**158,311**	196,579
Non-controlling interests		**16,169**	18,922
TOTAL EQUITY		**174,480**	215,501

The financial statements on pages 47 to 116 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Mr. Gao Xiaorui
DIRECTOR

Mr. Li Shaohua
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Translations reserve HK$'000	Retained profits/ (Accumulated loss) HK$'000	Equity attributable to equity holders of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	32,692	118,895	10,337	(2,627)	47,346	206,643	21,412	228,055
(Loss) profit for the year	—	—	—	—	(11,408)	(11,408)	812	(10,596)
Other comprehensive expense for the year								
Exchange differences on translation of overseas operations	—	—	—	1,344	—	1,344	292	1,636
Total comprehensive income (expense) for the year	—	—	—	1,344	(11,408)	(10,064)	1,104	(8,960)
Dividends paid to non-controlling interests of subsidiaries	—	—	—	—	—	—	(3,594)	(3,594)
At 31 December 2017	32,692	118,895	10,337	(1,283)	35,938	196,579	18,922	215,501
At 1 January 2018	**32,692**	**118,895**	**10,337**	**(1,283)**	**35,938**	**196,579**	**18,922**	**215,501**
Loss for the year	**—**	**—**	**—**	**—**	**(36,424)**	**(36,424)**	**(1,956)**	**(38,380)**
Other comprehensive expense for the year								
Exchange differences on translation of overseas operations	**—**	**—**	**—**	**(1,844)**	**—**	**(1,844)**	**(261)**	**(2,105)**
Total comprehensive expense for the year	**—**	**—**	**—**	**(1,844)**	**(36,424)**	**(38,268)**	**(2,217)**	**(40,485)**
Dividends paid to non-controlling interests of subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**(536)**	**(536)**
At 31 December 2018	**32,692**	**118,895**	**10,337**	**(3,127)**	**(486)**	**158,311**	**16,169**	**174,480**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(38,597)**	(5,686)
Adjustments for:			
Bad debt recovered	7	**—**	(148)
Interest expenses	8	**124**	35
Interest income	7	**(192)**	(105)
Depreciation of property, plant and equipment	14	**7,055**	7,379
Loss (gain) on disposal of property, plant and equipment	7	**1,176**	(287)
Loss (gain) from changes in fair value of investment property	15	**1,000**	(3,300)
Write-down of inventories	9	**—**	1,238
Operating cash flows before movements in working capital		**(29,434)**	(874)
Decrease in trade and other receivables		**1,714**	5,907
Decrease in inventories		**5,497**	2,220
Decrease in trade and other payables		**(6,971)**	(11,282)
Cash used in operations		**(29,194)**	(4,029)
Hong Kong Profits Tax paid, net		**(7,940)**	(556)
PRC Enterprise Income Tax paid, net		**(30)**	(595)
NET CASH USED IN OPERATING ACTIVITIES		**(37,164)**	(5,180)

	Note	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Decrease in pledged bank deposits		**—**	47,223
Interest received		**192**	105
Purchase of property, plant and equipment	14	**(3,048)**	(4,833)
Proceeds on disposal of property, plant and equipment		**2,605**	287
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(251)**	42,782
FINANCING ACTIVITIES			
Dividends paid to non-controlling interests		**(536)**	(3,594)
Interest paid		**(124)**	(35)
Repayment of bank borrowings	20	**—**	(23,089)
New bank borrowings raised	20	**7,000**	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**6,340**	(26,718)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(31,075)**	10,884
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**103,498**	93,136
Effect of change in foreign exchange rates		**(955)**	(522)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**71,468**	103,498
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank overdraft		**(2,478)**	—
Bank balances and cash		**73,946**	103,498
		71,468	103,498

1. GENERAL INFORMATION

The Company is a public limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal place of business is 15/F, Sun Hing Industrial Building, 46 Wong Chuk Hang Road, Aberdeen, Hong Kong.

The principal activities of the Group are the manufacture and sale of novelties, decoration and toy products.

The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied for the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, lease receivables) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, is recognised in the opening retained profits and other components of equity, without restating comparative information.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Cont'd)*

HKFRS 9 Financial Instruments *(Cont'd)*

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date.

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables.

ECL for other financial assets at amortised cost, including bank balances and cash and other receivables, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

After performing the assessment of expected credit loss on the Group's existing trade receivables, other receivables and bank balances, no expected credit loss allowance was recognised by the Group as at 1 January 2018 as the amount is not material.

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations. HKFRS 15 applies to all contracts with customers except for leases which are within the scope of HKAS 17 Leases.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised on the date of initial application, 1 January 2018. Any difference as at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that have not been completed at 1 January 2018.

Under HKFRS 15, a contract liability, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognizes the related revenue. As at 31 December 2017, contract liabilities of HK$3,989,000 were previously included in trade and other payables under deposits received from customers and as at 31 December 2018 contract liabilities with amount of HK$1,128,000 are now separately presented under trade and other payables, as a result of the adoption of HKFRS 15.

The management reviewed and assessed the Group's revenue as at 1 January 2018 based on the facts and circumstances that existed on that date. Save as disclosed above, there was no material impact from the initial application of HKFRS 15.

Information about the Group's accounting policies and performance obligations resulting from application of HKFRS 15 are disclosed in Notes 3 and 5 respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Cont'd)*

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interest in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined

According to the preliminary assessment, other than the assessment results of HKFRS 16 stated below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Cont'd)*

New and revised HKFRSs in issue but not yet effective *(Cont'd)*

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$28,477,000 which excluding short-term leases and leases of low value assets. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of approximately HK$698,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Basis of consolidation *(Cont'd)*

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investment in subsidiaries

Investments in subsidiaries presented in the Company's statement of financial position included in note 34 to the consolidated financial statements are stated at cost less identified impairment loss.

Revenue recognition *(upon application of HKFRS 15 in accordance with transitions in note 2)*

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Revenue recognition *(before application of HKFRS 15 on 1 January 2018)*

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment *(Cont'd)*

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis, at the following rates per annum:

Leasehold land and buildings	3% per annum or the remaining leases term
Factory premises	5–33%
Furniture, fixtures and office equipment	15–33%
Plant, machinery and moulds	10–20%
Motor vehicles	25–33%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Impairment of tangible and intangible assets other than goodwill *(Cont'd)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Leasing *(Cont'd)*

Leasehold land for own use *(Cont'd)*

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies *(Cont'd)*

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans/the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "(loss) profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation *(Cont'd)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Research and development costs

All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) *(Cont'd)*

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balance and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) *(Cont'd)*

Impairment of financial assets (Cont'd)

(i) Significant increase in credit risk *(Cont'd)*

- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 120 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 120 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Cont'd)

Impairment of financial assets (Cont'd)

(iii) Credit-impaired financial assets *(Cont'd)*

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the shared credit risk characteristics basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Amount due from ultimate holding company is assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) *(Cont'd)*

Impairment of financial assets (Cont'd)

(v) Measurement and recognition of ECL *(Cont'd)*

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace

Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loan and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see the accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets (before application of HKFRS 9 on 1 January 2018) *(Cont'd)*

Impairment of financial assets (Cont'd)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Object evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial liabilities and equity instruments *(Cont'd)*

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including trade and other payables are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognised its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amounts recognised as a provision, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Share-based payment arrangements

Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 28 to the Group's consolidation financial statements.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Related parties

A related party is a person or an entity that is related to the Group.

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group and the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entities and the Group are the member of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) the person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment property

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment property that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment property are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment property, the directors have determined that the presumption that the carrying amounts of investment property measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment property as the Group is not subject to any income taxes on disposal of its investment property.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation

The Group's carrying amounts of property, plant and equipment as at 31 December 2018 was approximately HK$85,194,000. The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 3% to 33% per annum, commencing from the date the assets is placed into productive use. The estimated useful life that the Group places the assets into productive use reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Key sources of estimation uncertainty *(Cont'd)*

Provision of ECL for trade receivables

The ECL for trade receivables is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The information about the ECLs and the Group's impairment loss regarding trade receivables are disclosed in note 17.

Recoverability of Deferred Tax Assets

As at 31 December 2018, a deferred tax asset of HK$8,678,000 in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. The recoverability of deferred tax assets requires the Group to estimate the probability of taxable profits expected to arise from future operations. At the end of each reporting period, management evaluates the recoverability of deferred tax assets by way of profit forecast when necessary.

Impairment on inventories

The management of the Group reviews an aging analysis at each reporting period, and identifies obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and provides impairment on obsolete and slow moving items.

5. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts during the year.

	2018 **HK$'000**	2017 HK$'000
Novelties and decoration products	**17,670**	17,503
Toy products	**127,581**	169,286
	145,251	186,789

6. SEGMENTS REPORTING

For management purposes, the Group is currently organised into two operating segments, namely the manufacture and sale of novelties and decoration products and the manufacture and sale of toy products.

The following is an analysis of the Group's revenue and results by reportable segments:

2018

	Novelties and decoration products HK$'000	Toy products HK$'000	Consolidated HK$'000
REVENUE			
External sales and total revenue	17,670	127,581	145,251
RESULT			
Segment results	(6,236)	(17,393)	(23,629)
Loss from changes in fair value of an investment property			(1,000)
Unallocated corporate expenses, net			(13,844)
Finance costs			(124)
Loss before tax			(38,597)
Income tax credit			217
Loss for the year			(38,380)

6. SEGMENTS REPORTING *(Cont'd)*

2018 *(Cont'd)*

	Novelties and decoration products HK$'000	Toy products HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	14,187	62,270	76,457
Unallocated corporate assets			125,363
Consolidated total assets			201,820
LIABILITIES			
Segment liabilities	4,740	21,382	26,122
Unallocated corporate liabilities			1,218
Consolidated total liabilities			27,340

	Novelties and decoration products HK$'000	Toy products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Additions of property, plant and equipment	—	3,043	5	3,048
Depreciation	579	5,361	1,115	7,055
Interest income	7	20	165	192

6. SEGMENTS REPORTING *(Cont'd)*

2017

	Novelties and decoration products HK$'000	Toy products HK$'000	Consolidated HK$'000
REVENUE			
External sales and total revenue	17,503	169,286	186,789
RESULT			
Segment results	(5,872)	6,839	967
Gain from changes in fair value of an investment property			3,300
Unallocated corporate expenses, net			(9,918)
Finance costs			(35)
Loss before tax			(5,686)
Income tax expense			(4,910)
Loss for the year			(10,596)

6. SEGMENTS REPORTING *(Cont'd)*

2017 *(Cont'd)*

	Novelties and decoration products HK$'000	Toy products HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	21,235	80,586	101,821
Unallocated corporate assets			145,505
Consolidated total assets			247,326
LIABILITIES			
Segment liabilities	2,228	28,259	30,487
Unallocated corporate liabilities			1,338
Consolidated total liabilities			31,825

	Novelties and decoration products HK$'000	Toy products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Additions of property, plant and equipment	288	4,521	24	4,833
Depreciation	922	5,091	1,366	7,379
Interest income	14	82	9	105

Segment result represents the result produced by each segment without allocation of central administration costs including directors' salaries, investment and other income, finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than the held for trading investments, other financial assets, investment property and land and building held for own use. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities are allocated to operating segments other than the other financial liabilities. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

6. SEGMENTS REPORTING *(Cont'd)*

Geographical Information

The Group's revenue from external customers by location of operations are detailed below:

	2018 HK$'000	2017 HK$'000
Sales revenue by geographical market:		
Hong Kong	**10,061**	17,274
Europe	**19,899**	47,189
United States of America	**19,007**	35,336
Asia (other than Hong Kong)	**95,857**	85,038
Others	**427**	1,952
	145,251	186,789

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Hong Kong	**154,595**	172,506	**272**	68
The People's Republic of China (the "PRC")	**47,225**	74,820	**2,776**	4,765
	201,820	247,326	**3,048**	4,833

Information about major customer

Included in revenue arising from sales of toy products of approximately HK$127,581,000 (2017: HK$169,286,000) is revenue of approximately HK$119,674,000 (2017: HK$160,714,000) which arose from sales to the Group's largest customer, representing approximately 82% (2017: 86%) of the total revenue.

7. OTHER INCOME, GAINS AND LOSSES

	2018 **HK$'000**	2017 HK$'000
Included in other income, gains and losses are:		
Bad debt recovered	**—**	148
Interest income from financial assets held for cash management purposes	**192**	105
Rental income	**—**	239
Scrap sales	**2,061**	1,277
(Loss) gain on disposal of property, plant and equipment	**(1,176)**	287
Gain on deregistration of subsidiary (Note 23)	**881**	—
Net foreign exchange gains (losses)	**833**	(1,509)
Others (Note a)	**2,057**	958
	4,848	1,505

Note a: Include in others was mainly tooling income.

8. FINANCE COSTS

	2018 **HK$'000**	2017 HK$'000
Interest on:		
Bank borrowings	**93**	35
Bank overdraft	**31**	—
	124	35

9. LOSS BEFORE TAX

	2018 HK$'000	2017 HK$'000
Loss before tax has been arrived at after charging (crediting):		
Auditor's remuneration	**1,075**	1,075
Bad debt recovered	**—**	(148)
Cost of inventories recognised as an expense	**44,750**	47,523
Depreciation of property, plant and equipment	**7,055**	7,379
Operating lease rentals in respect of rented premises	**4,785**	5,528
Research and development expenses	**3,600**	2,290
Gross rental income from investment property	**—**	(239)
Less:		
Direct operating expenses incurred for investment property that generated rental income during the year	**—**	53
Direct operating expenses incurred for investment property that did not generate rental income during the year	**—**	38
	—	(148)
Write-down of inventories (Note)	**—**	1,238
Staff costs		
— Salaries, allowances and retirement benefits scheme contributions (including Directors' emoluments)	**89,615**	88,820
— Compensation on removal of a factory	**508**	3,763

Note: The write-down of inventories have been recognised in cost of sales.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eight Directors in 2018 were as follows:

Emoluments	Fees	Other emoluments Salaries and other benefits	Bonuses	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors(i)					
Xie Yinuo(iv)	—	—	—	—	—
Poon Wai Yip, Albert	—	3,040	1,200	18	4,258
Wong Sze Chai(v), (vi)	48	—	—	—	48
Non-executive Director and Chairman(ii)					
Gao Xiaorui	180	—	—	—	180
Independent Non-executive Directors(iii)					
Zhang Shang(iv)	175	—	—	—	175
Lau Shu Yan	180	—	—	—	180
Xie Xiaohong	180	—	—	—	180
Lam Tak Leung(v)	6	—	—	—	6
Total for 2018	769	3,040	1,200	18	5,027

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Cont'd)*

(a) Directors' emoluments *(Cont'd)*

The emoluments paid or payable to each of the six Directors in 2017 were as follows:

Emoluments	Fees HK$'000	Other emoluments: Salaries and other benefits HK$'000	Bonuses HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive Directors[i]					
Xie Yinuo	—	—	—	—	—
Poon Wai Yip, Albert	—	2,560	232[iii]	18	2,810
Non-executive Director and Chairman[ii]					
Gao Xiaorui	180	—	—	—	180
Independent Non-executive Directors[ii]					
Zhang Shang	180	—	—	—	180
Lau Shu Yan	180	—	—	—	180
Xie Xiaohong	180	—	—	—	180
Total for 2017	720	2,560	232	18	3,530

Notes:

(i) Salary paid to an Executive Director is generally an emolument paid or receivable in respect of that person's services in connection with the management of the affairs of the Company or its subsidiary undertakings.

(ii) Salary paid to a Non-executive Director or Independent Non-executive Director is generally an emolument paid or receivable in respect of that person's services in connection with the management of the affairs of the Company.

(iii) The remuneration for the services of Mr. Poon Wai Yip, Albert with the Group was HK$2,560,000 per annum plus performance bonus at 1.25% on the Group's consolidated net profits as well as discretionary bonus, which was determined by the board of directors (the "Board") based on the remuneration policy of the Company, with reference to his duties and responsibilities with the Group and the prevailing market conditions (subject to review by the Remuneration Committee from time to time).

(iv) Resigned on 20 December 2018.

(v) Appointed on 20 December 2018.

(vi) Resigned on 21 February 2019.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Cont'd)*

(b) Directors' retirement benefits and termination benefits

During the year ended 31 December 2018, there were no retirement benefits or termination benefits received by the directors (2017: nil).

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2018, no consideration was paid for making available the services of the directors of the Company (2017: nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and entities connected with such directors

During the year ended 31 December 2018, there were no loans, quasi-loans and other dealings entered into by the Company or subsidiaries undertaking of the Company in favour of directors, controlled bodies corporate by and connected entities with such directors (2017: nil).

(e) Directors' material interests in transactions, arrangements or contracts

No transactions, arrangements and contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: nil).

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Cont'd)*

(f) Waiver of emoluments

No director has waived or agreed to waive any emoluments during the year ended 31 December 2018 (2017: nil).

(g) Employees' emoluments

Of the five individuals with the highest emoluments of the Group, one (2017: one) was Director of the Company, namely Mr. Poon Wai Yip, Albert, whose emolument is set out in (a) above. The aggregate emoluments of the remaining four (2017: four) individuals were as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**7,981**	6,672
Bonuses	**3,738**	1,858
Retirement benefit schemes contributions	**90**	112
	11,809	8,642

Their emoluments were within the following bands:

	2018 Number of employees	2017 Number of employees
Nil — HK$1,000,000	**—**	—
HK$1,000,001 — HK$1,500,000	**1**	2
HK$1,500,001 — HK$2,000,000	**—**	—
HK$2,000,001 — HK$2,500,000	**1**	—
HK$2,500,001 — HK$3,000,000	**—**	1
HK$3,000,001 — HK$3,500,000	**—**	1
HK$3,500,001 — HK$4,000,000	**—**	—
HK$4,000,001 — HK$4,500,000	**2**	—
	4	4

During the year, the remuneration paid to members of senior management was one in the band HK$1,000,001 to $1,500,000 (2017: one in band HK$1,000,001 to HK$1,500,000).

(h) Inducement to join the Group

During the year ended 31 December 2018, no emoluments were paid by the Group to any of the five highest paid individuals and/or any directors of the Company as an inducement to join or upon joining the Group (2017: nil) or as compensation for loss of office (2017: nil).

11. INCOME TAX (CREDIT) EXPENSE

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong Profits Tax	**454**	2,755
PRC Enterprise Income Tax	**30**	249
	484	3,004
(Over) under provision in prior years:		
Hong Kong Profits Tax	**(80)**	2,302
PRC Enterprise Income Tax	**—**	157
	(80)	2,459
Deferred tax (Note 21)		
Current year	**(621)**	(553)
Total income tax (credit) expense recognised in profit or loss	**(217)**	4,910

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years.

11. INCOME TAX (CREDIT) EXPENSE *(Cont'd)*

The tax (credit) charge for the year can be reconciled to the loss before tax as follows:

	2018 HK$'000	2017 HK$'000
Loss before tax	**(38,597)**	(5,686)
Tax at Hong Kong Profits Tax rate of 16.5%	**(6,368)**	(938)
Tax effect of income not taxable for tax purposes	**(1,172)**	(1,285)
Tax effect of expenses not deductible for tax purposes	**5,190**	2,668
Tax effect on temporary differences not recognised	**347**	156
Tax effect on tax losses not recognised	**2,651**	2,395
Utilisation of tax losses not previously recognised	**182**	(82)
(Over) under provision in respect of prior years	**(80)**	2,459
Effect of different tax rates of subsidiaries operating in the PRC	**(967)**	(463)
Tax (credit) charge for the year	**(217)**	4,910

12. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Interim paid — nil (2017: nil)	**—**	—

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the Group's loss for the year attributable to owners of the Company of approximately HK$36,424,000 (2017: HK$11,408,000) and the weighted average number of ordinary shares of 326,923,607 (2017: 326,923,607).

Diluted loss per share for the year ended 31 December 2018 and 2017 was the same as basic loss per share as there were no dilutive potential ordinary shares in issue for both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Factory premises HK$'000	Furniture, fixtures and office equipment HK$'000	Plant, machinery and moulds HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2017	32,636	32,766	26,045	118,426	3,247	213,120
Additions	—	475	777	3,118	463	4,833
Disposals	—	—	(9,445)	(28,821)	—	(38,266)
Exchange alignment	—	162	164	3,316	114	3,756
At 31 December 2017 and 1 January 2018	32,636	33,403	17,541	96,039	3,824	183,443
Additions	—	1,089	489	1,202	268	3,048
Disposals	—	(27,886)	(4,480)	(10,633)	(717)	(43,716)
Transfer from investment property (Note 15)	35,000	—	—	—	—	35,000
Exchange alignment	—	(91)	(131)	(1,886)	(55)	(2,163)
At 31 December 2018	67,636	6,515	13,419	84,722	3,320	175,612
DEPRECIATION AND AMORTISATION						
At 1 January 2017	3,910	31,830	20,273	95,726	1,867	153,606
Provided for the year	1,145	1,122	857	3,664	591	7,379
Eliminated upon disposal	—	—	(9,445)	(28,821)	—	(38,266)
Exchange alignment	—	51	103	1,388	51	1,593
At 31 December 2017 and 1 January 2018	5,055	33,003	11,788	71,957	2,509	124,312
Provided for the year	1,145	1,020	788	3,632	470	7,055
Eliminated upon disposal	—	(27,787)	(1,642)	(9,776)	(730)	(39,935)
Exchange alignment	—	(29)	(90)	(868)	(27)	(1,014)
At 31 December 2018	6,200	6,207	10,844	64,945	2,222	90,418
CARRYING VALUES						
At 31 December 2018	61,436	308	2,575	19,777	1,098	85,194
At 31 December 2017	27,581	400	5,753	24,082	1,315	59,131

14. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

The Group has not obtained Certificate for Housing Ownership in respect of the Group's factory premises with carrying value of approximately HK$308,000 (2017: HK$400,000) at 31 December 2018.

15. INVESTMENT PROPERTY

	2018	2017
	HK$'000	HK$'000
At fair value		
Balance at the beginning of the year	**36,000**	32,700
(Loss) gain from changes in fair value of an investment property	**(1,000)**	3,300
Transfer to property, plant and equipment (Note 14)	**(35,000)**	—
Balance at the end of the year	**—**	36,000

The Group's property interests held for earn rentals are measured using the fair value model and are classified and accounted for as investment property.

The Group transferred an investment property at fair value of HK$35,000,000 to property, plant and equipment on 31 December 2018 as change of use of the property. The fair value of the Group's property at 31 December 2018 was arrived at on the basis of a valuation that date by Greater China Appraisal Limited, independent qualified professional valuers not connected to the Group. Greater China Appraisal Limited is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experience in the valuation of properties in relevant locations.

At 31 December 2018, the fair value was determined based on Comparison Approach assuming sale of the property interest in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. In estimating the fair value of the property, the highest and best use of the property is its current use.

The key input was the unit sale price taking into account of time, location and individual factors such as size and levels of building, which range from approximately HK$5,754 to HK$7,629 per square foot in 2018. An increase in the unit sale rate would result in increase in fair value of the investment property by the same percentage and vice versa.

15. INVESTMENT PROPERTY *(Cont'd)*

Details of the Group's investment property and information about the fair value hierarchy as at 31 December 2017 are as follows:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Commercial property units located in Hong Kong	—	—	36,000	36,000

The investment property was transferred to property, plant and equipment on 31 December 2018.

The carrying amounts of investment property shown above comprise:

	2018 **HK$'000**	2017 HK$'000
Land and building in Hong Kong held under:		
medium-term lease	**—**	36,000

16. INVENTORIES

	2018 **HK$'000**	2017 HK$'000
At cost		
Raw materials	**4,762**	6,480
Work in progress	**2,530**	3,090
Finished goods	**4,574**	7,793
	11,866	17,363

17. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**21,677**	20,564
Less: impairment loss allowance on trade receivables	**(4,524)**	(4,524)
	17,153	16,040
Other receivables		
Prepayment	**1,433**	3,766
Rental, utility and other deposits	**1,499**	1,710
Cash deposit in broker's account	**8**	8
Sundry debtors and others (Note a)	**1,379**	1,662
	4,319	7,146
	21,472	23,186

Note a: Included in sundry debtors and others were mainly export tax rebates receivables in Mainland China.

The Group allows an average credit period of 60 days to its trade customers.

The following is an aging analysis of the Group's trade receivables, presented based on invoice dates and net of impairment loss allowance at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
0–60 days	**15,883**	15,554
61–90 days	**1,162**	209
91–120 days	**29**	—
Over 120 days	**79**	277
	17,153	16,040

Trade receivables disclosed above include amounts which are past due at the end of reporting period for which the Group has not recognised impairment loss allowance because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offsetting against any amounts owed by the Group to the counterparty.

17. TRADE AND OTHER RECEIVABLES *(Cont'd)*

The following is an aging analysis of the Group's trade receivables that were past due but not impaired at the end of the reporting period:

	2018	2017
	HK$'000	HK$'000
Overdue by:		
0–60 days	**4,372**	5,138
61–90 days	**108**	—
91–120 days	**—**	277
	4,480	5,415

The following is the movement in the impairment loss allowance:

	2018	2017
	HK$'000	HK$'000
At 1 January	**4,524**	6,809
Amounts recovered during the year	**—**	(148)
Amount written off during the year as uncollectible	**—**	(2,137)
At 31 December	**4,524**	4,524

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The fair value of the Group's trade and other receivables at 31 December 2018 approximates the corresponding carrying amount.

The following is an aging analysis of the Group's impaired trade receivables:

	2018	2017
	HK$'000	HK$'000
Overdue by:		
Over 120 days	**4,524**	4,524

18. BANK BALANCES AND CASH

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates ranging from 0.125% to 2.590% p.a. (2017: 0.001% to 0.304% p.a.) with an original maturity of three months or less. The fair value of these assets at 31 December 2018 approximates to the corresponding carrying amounts.

Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Bank overdraft carry interest at prime rate to 0.5% below prime rate of relevant banks at 5.125% to 4.625% per annum as at 31 December 2018 (2017: nil).

The unutilised bank overdraft facilities as at 31 December 2018 amounted to HK$7,522,000 (2017: HK$5,000,000).

19. TRADE AND OTHER PAYABLES

The following is an aging analysis of the Group's trade payables, presented based on invoice dates at the end of reporting period:

	2018 **HK$'000**	2017 HK$'000
Trade payables		
0–60 days	**7,257**	7,153
61–90 days	**611**	1,830
91–120 days	**22**	95
Over 120 days	**407**	521
	8,297	9,599
Other payables		
Accrued salary, bonus and commission	**5,750**	7,710
Contract liabilities	**1,128**	3,989
Accrued expenses and others	**2,625**	3,473
	9,503	15,172
	17,800	24,771

The average credit period on purchases of certain goods is 45 to 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame. The fair value of the Group's trade and other payables at 31 December 2018 approximates the corresponding carrying amount.

20. BANK BORROWINGS

	2018	2017
	HK$'000	HK$'000
Secured bank loan (note)		
Balance at the beginning of the year	**—**	23,089
Repayment of bank borrowings	**—**	(23,089)
New bank borrowings raised	**7,000**	—
Balance at the end of the year	**7,000**	—

Note: Secured by the Group's leasehold land and buildings and investment property bearing interest HIBOR +1.75% p.a. (2017: HIBOR +1.75% to HIBOR +2.25% p.a.). The effective interest rate on the secured bank loans ranged from 2.79% to 4.07% p.a. (2017: 2.24% to 2.75% p.a.).

The carrying amounts repayable extracted from agreed repayment schedules from financial institutions are as follows:

	2018	2017
	HK$'000	HK$'000
On demand or within one year	**7,000**	—

21. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years:

	Tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2017	(471)	(6,971)	(7,442)
Credit (charge) to income for the year	10	(563)	(553)
At 31 December 2017 and 1 January 2018	(461)	(7,534)	(7,995)
Credit (charge) to income for the year	87	(708)	(621)
At 31 December 2018	(374)	(8,242)	(8,616)

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

With regard to the Group's investment property, as none of the Group's investment property is held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, the Group has not recognised any deferred taxes on changes in fair value of the investment property as the Group is not subject to any income taxes on disposal of its investment property.

For the purposes of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 **HK$'000**	2017 HK$'000
Deferred tax liabilities	**62**	95
Deferred tax assets	**(8,678)**	(8,090)
	(8,616)	(7,995)

At the end of reporting period, the Group has unused tax losses of approximately HK$178,649,000 (2017: HK$176,509,000) available for offset against future profits that may be carried forward indefinitely. A deferred tax asset has been recognised in respect of approximately HK$49,955,000 (2017: HK$45,659,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$128,694,000 (2017: HK$130,850,000) due to the unpredictability of future profit streams.

22. SHARE CAPITAL

	Number of shares		Share capital	
	2018	2017	**2018**	2017
	'000	'000	**HK$'000**	HK$'000
Authorised				
Ordinary shares of HK$0.10 each	**700,000**	700,000	**70,000**	70,000
Issued and fully paid				
At beginning and end of year	**326,924**	326,924	**32,692**	32,692

23. DEREGISTRATION OF A SUBSIDIARY

During the year ended 31 December 2018, the Group deregistered an indirect wholly-owned subsidiary, 中山市威嘉紙品有限公司.

Net assets of the deregistered subsidiary at its date of deregistration are as follows:

	HK$'000
Current assets	—
Current liabilities	—
Net assets disposal of	—
Release of exchange translation reserve	881
Gain on deregistration (Note 7)	881

There was no net inflow/outflow of cash and cash equivalents in respect of the deregistration of subsidiaries during the year.

24. PLEDGE OF ASSETS

As at 31 December 2018, the Group had pledged its leasehold land and buildings and investment property with carrying values of approximately HK$61,436,000 and HK$nil respectively (2017: HK$27,581,000 and HK$36,000,000 respectively) to secure banking facilities granted to the Group.

25. OPERATING LEASES

The Group as lessee

	2018 **HK$'000**	2017 HK$'000
Lease payments made under operating leases during the year		
Rented premises	**4,065**	5,617

At 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**5,082**	4,933
In the second to fifth year inclusive	**4,818**	5,825
Over five years	**22,455**	23,786
	32,355	34,544

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises, with lease terms of between 1 to 28 years.

The Group as lessor

Property rental income earned during the year was HK$nil (2017: HK$239,000). The investment property was transferred to property, plant and equipment on 31 December 2018.

At the end of the reporting period, the Group had not contracted with tenants for future minimum lease payments.

26. CAPITAL COMMITMENTS

	THE GROUP	
	2018	2017
	HK$'000	HK$'000
Capital commitments in respect of the acquisition of property, plant and equipment:		
Contracted but not provided for	**5,795**	190

27. CONTINGENT LIABILITIES

(a) Contingent liability in respect of legal claim

A subsidiary of the Group (the "Subsidiary") has served a writ and claimed against three former employees of the Subsidiary (the "Defendants"). The claim related to the misconduct of the Defendants during their employment with the Subsidiary. The Defendants had filed a defence and counterclaim against the Subsidiary for wages and other payments allegedly payable upon their termination of employment with the Subsidiary amounting to approximately HK$419,000 together with interest and costs. The Directors of the Company take the views that the amount of the Subsidiary's claims against the Defendants well exceeded the Defendants' claims, and accordingly, no provision for any liabilities that may result has been made in the financial statements of the Group.

The claims have been pending since 2005.

(b) Financial guarantees issued

At the end of reporting period, the Company has issued the following guarantees:

(i) Corporate guarantees to banks in respect of banking facilities granted to its subsidiaries

The Company is also one of the entities covered by a cross guarantee arrangement issued by the Company and its Subsidiaries to banks in respect of banking facilities granted to the Group which remains in force so long as the Group has drawn down under the banking facilities. Under the guarantee, the Company and all the Subsidiaries that are parties to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee.

(ii) An unlimited guarantee granted to a subsidiary in relation to banking facilities granted.

As at 31 December 2018, the Directors did not consider it probable that a claim could be made against the Company under any of the guarantees as the probability of default payment for the loan drawn down, if any, by the subsidiaries is remote.

The Company had not recognised any deferred income in respect of the corporate guarantee as its fair value cannot be reliably measured and its transaction price was nil.

28. SHARE-BASED PAYMENT TRANSACTIONS

A share option scheme (the "Scheme") was adopted in the annual general meeting of the Company held on 30 May 2012 and will expire on 29 May 2022. The primary purpose of the Scheme is to recognise and motivate the contribution of employees and other persons who may have a contribution to the Group and to provide them with incentives and to help the Company in retaining its existing employees and recruiting additional employees and to provide the aforesaid eligible participants with a direct economic interest and personal stake in attaining the long term business objectives of the Company.

Under the Scheme, the Board may grant options to any employees, including full time or part time employees, of the Company and/or its subsidiaries, including any executive and non-executive directors or proposed executive and non-executive directors of the Company or its subsidiaries, advisers, consultants, customers and suppliers and/or other persons who in the sole discretion of the Board has contributed or may contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the scheme for the consideration of HK$1 for each lot of share options granted.

The maximum number of shares in respect of which options may be granted under both the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of adoption of the Scheme. In addition, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of shares of the Company for the time being in issue without prior approval from the Company's shareholders in general meeting with the aforesaid proposed individual grantee and his associates being abstained from voting in such general meeting. Also, where any grant of options to a substantial shareholder (as defined in the Listing Rules) of the Company or an independent non-executive Director, or any of their respective associates (as defined in the Listing Rules), would result in the shares of the Company ("Shares") issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the relevant class of Shares in issue and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by shareholders, and the grantee, his associates and all connected persons (as defined in the Listing Rules) of the Company must abstain from voting in favour at the relevant general meeting.

Options granted under the Scheme must remain open for acceptance until 5:00 p.m. on the 5th business day following the offer date provided that no such offer shall be open for acceptance after the tenth anniversary of the adoption date or after the Scheme has been terminated. Options may be exercised during the period as the Directors may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of the grant of the options and the Board may provide restrictions on the exercise of an option during the period an option may be exercised.

28. SHARE-BASED PAYMENT TRANSACTIONS *(Cont'd)*

Total consideration received during the period from the Directors, employees and/or other persons for taking up the options granted during the year is nil (2017: HK$nil).

The exercise price is determined by the Board at the time of the grant of the relevant option and will be at least the highest of

a) the closing price of shares at the date of grant of a share option;

b) the average closing price of the shares for the five trading days immediately preceding the date of grant; and

c) the nominal value of a share.

At the date of this report, the number of shares available for issue under the Scheme of the Company were 32,692,360, representing approximately 10% of the shares of the Company in issue at that date.

There were no movements in the Company's share options during the years ended 31 December 2017 and 2018. There were no outstanding share options of the Company as at 1 January 2018 and 31 December 2018.

29. RETIREMENT BENEFITS SCHEME

The Group participates in two defined contribution schemes which are registered under the Occupational Retirement Scheme Ordinance (the "ORSO Schemes") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Certain employees who were members of the ORSO Schemes prior to the establishment of the MPF Scheme had switched to the MPF Scheme and the remaining employees selected to remain in the ORSO Schemes. All new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employee. The ORSO Schemes are funded by monthly contributions from both employees and the Group at the rate of 5% of the employee's basic salary.

Employees of the Group in the PRC are members of a state-managed retirement benefit plan operated by the PRC Government. The Group are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

During the reporting period and at the end of reporting period, there was no forfeited contribution, which arose upon employees leaving the ORSO Schemes and which are available to reduce the contributions payable in future years.

The total cost recognised in the consolidated statement of profit or loss and other comprehensive income of approximately HK$504,000 (2017: HK$532,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

30. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following transactions with related parties who are not members of the Group:

	2018 **HK$'000**	2017 HK$'000
Rental expenses paid to:		
Mr. Poon Siu Chung (Note)	**120**	120
Proceeds received for disposal of property, plant and equipment:		
Mr. Poon Siu Chung (Note)	**2,200**	—

Note: Mr. Poon Siu Chung is a director of a number of subsidiaries of the Company.

The related party transactions constitute connected transactions as defined in Chapter 14A of the Listing Rules. However, these transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1).

(b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the year were as follows:

	2018 **HK$'000**	2017 HK$'000
Short-term benefits	**7,161**	4,712
Post-employment benefits	**79**	37
	7,240	4,749

The remuneration of Directors and key management personnel is determined by the Board and reviewed by the remuneration committee having regard to the performance of individuals and market trends.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk management

Several subsidiaries of the Company have sales and purchases denominated in foreign currency, which expose the Group to foreign currency risk. The Group currently has no foreign currency hedging policy and the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the reporting period are as follows:

	Assets 2018 HK$'000	**Liabilities 2018 HK$'000**	Assets 2017 HK$'000	Liabilities 2017 HK$'000
Renminbi ("RMB")	**10,074**	**11,622**	26,547	14,659

The following table shows the sensitivity analysis of a 5% increase/decrease in RMB against the Hong Kong dollars, the effect in the loss for the year is as follows:

	Impact of RMB 2018 HK$'000	Impact of RMB 2017 HK$'000
Increase/decrease in loss for the year	**77**	594

Besides, at the end of the reporting period, the Group has bank balances of approximately US$6,689,000, the sensitivity of fluctuation in USD exchange rate is considered insignificant as the Hong Kong dollars banknotes are fully backed by US dollars held by Exchange Fund at the rate of HK$7.8 to US$1.0.

Liquidity risk management

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. The majority of the Group's banking facilities are subject to floating rates and are renewable annually. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Liquidity risk management *(Cont'd)*

The maturity profiles of the Group's financial liabilities at the end of reporting period based on contractual undiscounted payments are summarised below:

2018

	On demand or within 1 year HK$'000	2–5 years HK$'000	Over 5 years HK$'000	Undiscounted cash flows HK$'000
Trade payables	8,297	—	—	8,297
Accruals and other payables	8,375	—	—	8,375
Bank borrowings	7,000	—	—	7,000
Bank overdraft	2,478	—	—	2,478
Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	5,795	—	—	5,795
	31,945	—	—	31,945

2017

	On demand or within 1 year HK$'000	2–5 years HK$'000	Over 5 years HK$'000	Undiscounted cash flows HK$'000
Trade payables	9,599	—	—	9,599
Accruals and other payables	11,183	—	—	11,183
Capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	190	—	—	190
	20,972	—	—	20,972

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Liquidity risk management *(Cont'd)*

As at 31 December 2017 and 2018, certain of the Group's borrowings amounted to HK$nil and HK$7,000,000 respectively, of which the bank borrowings contain repayment on demand clauses giving the banks the unconditional right to call in the bank borrowings at any time. Therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand". Taking into account the Group's financial position and past experience, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management of the Group believes that these financial liabilities to banks will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

The following table details the Group's aggregate principal and interest cash outflows for bank borrowings with a repayment on demand clause.

2018	**Maturity Analysis — Bank borrowings subject to a repayment on demand clause based on scheduled repayments**			
	On demand or within 1 year HK$'000	**2–5 years HK$'000**	**Over 5 years HK$'000**	**Undiscounted cash flow HK$'000**
Bank borrowings	**7,083**	**—**	**—**	**7,083**

Interest rate risk management

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings which are not significant.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Sensitivity analysis

The sensitivity analysis below, which include interest rate exposure on variable interest-bearing liabilities and deposits, have been determined based on the exposure to interest rates for all non-derivative instrument at the end of the reporting date. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points increase or decrease is used which represents management's assessment of the possible change in interest rates.

If interest rates have been 100 basis points higher/lower and all other variables held constant, the Group's loss for the years ended 31 December 2017 and 2018 would increase/ decrease by approximately HK$165,000 and HK$ 838,000 respectively.

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2018 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the group's credit risk is significant reduced.

Fair values

As at 31 December 2018, the carrying amount of bank balance and cash, trade and other receivables, trade and other payables approximated their fair values due to the short-term maturities of these assets and liabilities. The Directors consider that financial assets at fair value through profit or loss are included in the statement of financial position at amounts approximating to their fair values.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

During 2018, the Group's strategy remained unchanged as compared to that in 2017. The Group monitors capital on the basis of the gearing ratio. This gearing ratio is calculated as total bank borrowings divided by equity attributable to owners of the Company.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Capital risk management *(Cont'd)*

The management considers the gearing ratio at the year end was as follows:

	2018 **HK$'000**	2017 HK$'000
Borrowings	**9,478**	—
Equity attributable to owners of the Company	**158,311**	196,579
Gearing ratio	**6%**	NIL

32. FINANCIAL INSTRUMENTS BY CATEGORY

	2018 **HK$'000**	2017 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)	**93,983**	19,420
Financial liabilities		
Financial liabilities at amortised cost	**26,150**	20,782

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration/ operation	Proportion of nominal value of issued/paid up capital held by the Company Directly	Indirectly	Particulars of issued and paid up capital	Principal activities
Asia Rich (Far East) Limited	Hong Kong	—	79.6%	2 ordinary shares	Inactive
Benefit International Packing Materials Limited	Hong Kong	—	100%	10,000 ordinary shares	Trading of novelties and festival decorations
Benefit Packing Materials Limited	Hong Kong	—	75%	10,000 ordinary shares	Inactive
Beyond Growth International Limited	Hong Kong	—	79.6%	100,000 ordinary shares	Manufacture and sales of toys
Dream Creation Limited	Hong Kong	—	79.6%	2 ordinary shares	Investment holding and distribution of toys
Fareastern Trade Limited	British Virgin Islands (“BVI”)/ Hong Kong	—	88%	87,618 ordinary shares of US$1 each	Investment holding
Freshwater Trading Limited	BVI/Hong Kong	—	100%	1 ordinary share of US$1 each	Investment holding
Golden Enterprise Holdings Limited	Hong Kong	—	100%	2 ordinary shares	Distribution of toys
Headfit Paper Bags Trading Limited	Hong Kong	—	100%	10,000 ordinary shares	Securities investments and trading of paper bags
iTech Limited	Hong Kong	—	100%	2 ordinary shares	Investment holding
Leader Packaging Company Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Leader Stationery & Gifts Manufacturing Company Limited	Hong Kong	—	100%	10,000 ordinary shares	Inactive
Link Faith Company Limited	Hong Kong	—	100%	100,000 ordinary shares	Securities investments
Mars Technology Limited	BVI/Hong Kong	—	79.6%	10,000 ordinary shares of US$1 each	Investment holding
New Genius Technology Limited	BVI/Hong Kong	—	100%	1 ordinary share of US$1 each	Investment holding

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration/ operation	Proportion of nominal value of issued/paid up capital held by the Company Directly	Indirectly	Particulars of issued and paid up capital	Principal activities
Onward Packing Manufacturer Limited	Hong Kong	—	100%	320,000 ordinary shares	Manufacture of novelties, festival decorations products
Perfect Skill Limited	BVI/Hong Kong	—	100%	1 ordinary share of US$1 each	Investment holding
Perfectech Colour Centre Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Perfectech Enterprises (B.V.I.) Limited	BVI/Hong Kong	—	100%	1 ordinary share of US$1 each	Investment holding
Perfectech International (B.V.I.) Limited	BVI/Hong Kong	100%	—	50 ordinary shares of US$1 each	Investment holding
Perfectech International Toys Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Perfectech International Limited	Hong Kong	—	100%	200 ordinary shares 80,000 non-voting deferred shares	Investment holding
Perfectech International Manufacturing Limited	BVI/Hong Kong	—	100%	2,457,000 ordinary shares of US$1 each	Investment holding
Perfectech International Packaging Products Company Limited	Hong Kong	—	100%	450,000 ordinary shares	Inactive
Perfectech International Trading Limited	Hong Kong	—	100%	2 ordinary shares	Trading of novelties and festival decorations
Perfectech Paper Products Company Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Investment holding
Perfectech Plastic Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Inactive
Perfectech Printing Company Limited	Hong Kong	—	100%	1,000,000 ordinary shares	Investment holding
Perfectech Rigid (PVC) Pipe Manufacturing Limited	Hong Kong	—	100%	10,000 ordinary shares	Investment holding

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration/ operation	Proportion of nominal value of issued/paid up capital held by the Company Directly	Indirectly	Particulars of issued and paid up capital	Principal activities
Shouji Mould Engineering Company Limited	Hong Kong	—	88%	2 ordinary shares	Distribution of mould
Shouji Tooling Factory Limited	Hong Kong	—	88%	1,000 ordinary shares	Manufacture and sales of moulds
Skyrocket Assets Limited	BVI/Hong Kong	—	100%	1 ordinary share of US$1 each	Investment holding
Sunflower Garland Manufactory Limited	Hong Kong	—	100%	2 ordinary shares 160,000 non-voting deferred shares	Securities and properties investment
Yu-Me (H.K.) Limited	Hong Kong	—	100%	2 ordinary shares	Provision of management services
Vivid Art Holdings Limited	BVI/Hong Kong	—	100%	50,000 ordinary shares of US$1 each	Investment holding
Prosperous Celestial Holding Limited	BVI/Hong Kong	—	100%	50,000 ordinary shares of US$1 each	Investment holding
Universal Celestial Holding Limited	BVI/Hong Kong	—	100%	50,000 ordinary shares of US$1 each	Investment holding
Jolly Celestial Holding Limited	BVI/Hong Kong	—	100%	50,000 ordinary shares of US$1 each	Investment holding
Vigor Celestial Holding Limited	BVI/Hong Kong	—	100%	50,000 ordinary shares of US$1 each	Investment holding
Prosperous Celestial (HK) Holding Limited	Hong Kong	—	100%	10,000 ordinary shares	Inactive
Universal Celestial (HK) Holding Limited	Hong Kong	—	100%	10,000 ordinary shares	Inactive
Jolly Celestial (HK) Holding Limited	Hong Kong	—	100%	10,000 ordinary shares	Inactive
Vigor Celestial (HK) Holding Limited	Hong Kong	—	100%	10,000 ordinary shares	Inactive

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration/ operation	Proportion of nominal value of issued/paid up capital held by the Company Directly	Indirectly	Particulars of issued and paid up capital	Principal activities
東青林模具塑膠(深圳)有限公司 (Note a)	The PRC	—	88%	HK$45,004,200	Manufacture and sales of moulds
珠海市多發塑膠製品有限公司 (Note a)	The PRC	—	100%	HK$500,000	Manufacture and trading of novelties and festival decorations products
江門市安發塑膠製品有限公司 (Note a)	The PRC	—	100%	HK$600,000	Inactive
中山市威發塑膠製品有限公司 (Note a)	The PRC	—	100%	RMB6,000,000	Manufacture of novelties and festival decorations products
中山市志發玩具有限公司 (Note a)	The PRC	—	79.6%	RMB8,000,000	Manufacture and sales of toys
中山市利發玩具有限公司 (Note a)	The PRC	—	79.6%	RMB8,059,405	Manufacture and sales of toys

Note:

(a) These subsidiaries are Wholly Foreign-Owned Enterprises established in the PRC.

None of the subsidiaries had any debt securities outstanding at the end of the year.

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018**	2017	**2018**	2017
Fareastern Trade Limited	BVI/Hong Kong	**88%**	88%	**67**	1,107	**7,152**	7,439
Mars Technology Limited	BVI/Hong Kong	**79.6%**	79.6%	**(2,021)**	(293)	**8,293**	10,757

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

Fareastern Trade Limited and its wholly owned subsidiaries (Fareastern Group)

	2018 HK$'000	2017 HK$'000
Current assets	**242,200**	235,680
Non-current assets	**14,220**	17,220
Current liabilities	**(196,770)**	(190,835)
Non-current liabilities	**(38)**	(60)
Equity attributable to owners of the Company	**52,460**	54,566
Non-controlling interests	**7,152**	7,439
Revenue	**75,060**	90,002
Profit for the year attributable to:		
— owners of the Company	**490**	8,121
— the non-controlling interests	**67**	1,107
	557	9,228
Other comprehensive (expense) income for the year attributable to:		
— owners of the Company	**(1,303)**	1,205
— the non-controlling interests	**(178)**	164
	(1,481)	1,369
Total comprehensive (expense) income for the year attributable to:		
— owners of the Company	**(813)**	9,326
— the non-controlling interests	**(111)**	1,271
	(924)	10,597
Dividend paid to the non-controlling interests	**536**	894
Net cash (outflow) inflow from operating activities	**(2,231)**	1,151
Net cash outflow from investing activities	**(1,002)**	(2,573)
Net cash outflow from financing activities	**(539)**	(536)
Net cash outflow	**(3,772)**	(1,958)

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

Mars Technology Limited and its wholly owned subsidiaries (Mars Group)

	2018 HK$'000	2017 HK$'000
Current assets	**167,026**	173,087
Non-current assets	**9,964**	10,516
Current liabilities	**(136,144)**	(132,627)
Non-current liabilities	**—**	—
Equity attributable to owners of the Company	**32,553**	40,219
Non-controlling interests	**8,293**	10,757
Revenue	**52,522**	79,285
Loss for the year attributable to:		
— owners of the Company	**(7,699)**	(1,142)
— the non-controlling interests	**(2,021)**	(293)
	(9,720)	(1,435)
Other comprehensive (expense) income for the year attributable to:		
— owners of the Company	**(326)**	498
— the non-controlling interests	**(84)**	128
	(410)	626
Total comprehensive expense for the year attributable to:		
— owners of the Company	**(8,026)**	(644)
— the non-controlling interests	**(2,105)**	(165)
	(10,130)	(809)
Dividend paid to the non-controlling interests	**—**	2,700
Net cash outflow from operating activities	**(10,561)**	(35,840)
Net cash outflow from investing activities	**(1,700)**	(1,602)
Net cash inflow (outflow) from financing activities	**6,934**	(3,058)
Net cash outflow	**(5,327)**	(40,500)

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSET		
Unlisted investments in subsidiaries	**32,451**	32,451
Property, plant and equipment	**19**	20
	32,470	32,471
CURRENT ASSETS		
Prepayment and deposit	**627**	140
Amounts due from subsidiaries (Note a)	**137,779**	143,585
Bank balances and cash	**57,157**	63,836
	195,563	207,561
CURRENT LIABILITIES		
Accrued expenses	**1,049**	1,168
Amounts due to subsidiaries (Note a)	**68,673**	68,673
	69,722	69,841
NET CURRENT ASSETS	**125,841**	137,720
TOTAL ASSETS LESS CURRENT LIABILITIES	**158,311**	170,191
NET ASSETS	**158,311**	170,191
CAPITAL AND RESERVES		
Share capital (Note 22)	**32,692**	32,692
Reserves	**125,619**	137,499
TOTAL EQUITY	**158,311**	170,191

Note a: The amounts due from/to subsidiaries are unsecured, interest free and had no fixed term of repayment.

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Mr. Gao Xiaorui
DIRECTOR

Mr. Li Shaohua
DIRECTOR

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Cont'd)*

Movement in the Company's reserves

	Share capital	Share premium	Capital redemption reserve	Retained profits/ (Accumulated loss)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	32,692	118,895	10,337	15,180	177,104
Loss and total comprehensive expense for the year	—	—	—	(6,913)	(6,913)
At 31 December 2017 and 1 January 2018	32,692	118,895	10,337	8,267	170,191
Loss and total comprehensive expense for the year	—	—	—	(11,880)	(11,880)
At 31 December 2018	32,692	118,895	10,337	(3,613)	158,311

RESULTS

	Year ended 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	225,549	198,088	237,069	186,789	**145,251**
Profit (loss) before tax	13,840	(10,708)	36,868	(5,686)	**(38,597)**
Income tax (expenses) credit	(3,494)	(2,668)	(6,206)	(4,910)	**217**
Profit (loss) for the year	10,346	(13,376)	30,662	(10,596)	**(38,380)**
Attributable to:					
Owners of the Company	7,677	(16,090)	23,272	(11,408)	**(36,424)**
Non-controlling interests	2,669	2,714	7,390	812	**(1,956)**
Profit (loss) for the year	10,346	(13,376)	30,662	(10,596)	**(38,380)**

ASSETS AND LIABILITIES

	As at 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	264,136	253,041	290,229	247,326	**201,820**
Total liabilities	(67,238)	(54,346)	(62,174)	(31,825)	**(27,340)**
Total equity	196,898	198,695	228,055	215,501	**174,480**
Non-controlling interests	14,597	15,708	21,412	18,922	**16,169**
Equity attributable to owners of the Company	182,301	182,987	206,643	196,579	**158,311**
Total equity	196,898	198,695	228,055	215,501	**174,480**

PARTICULARS OF MAJOR PROPERTIES

LEASEHOLD LAND AND BUILDINGS

Category Location	Use	Category of lease	Group's interest
Units C & D, 9/F, Sing Teck Factory Building, 44 Wong Chuk Hang Road, Aberdeen, Hong Kong	Industrial	Medium-term	100%
Units 1 & 2, 15/F, Sun Hing Industrial Building, 46 Wong Chuk Hang Road, Aberdeen, Hong Kong	Industrial	Medium-term	100%